Supreme Court, U.S.
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No. 04-

IN THE

# Supreme Court of the United States

NXIVM CORPORATION *et al.*,

*Petitioners,*

v.

ROSS INSTITUTE *et al.*,

*Respondents.*

**On Petition for a Writ of Certiorari to the United States Court of Appeals for the Second Circuit**

## PETITION FOR A WRIT OF CERTIORARI

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## QUESTIONS PRESENTED FOR REVIEW

1. Whether the Second Circuit erred when it held—in acknowledged conflict with decisions of other circuits—that the fair use defense to copyright infringement is available even to a defendant who used an unauthorized copy of the plaintiff's copyrighted material.

2. Whether the Second Circuit erred when it held, in direct conflict with this Court's decision in *Harper & Row Publishers, Inc.* v. *Nation Enterprises*, 471 U.S. 539 (1985), that an otherwise infringing use of copyrighted materials is presumptively fair, so long as it can be labeled "criticism."

## PARTIES TO THE PROCEEDINGS

In addition to the parties listed in the caption, the following was Plaintiff-Appellant below, and is a Petitioner in this case:

First Principles, Inc.;

the following were Defendants-Appellees below, and are Respondents in this case:

Rick Ross
John Hochman
Stephanie Franco;

and the following were Consolidated Defendants-Appellees below, and are Respondents in this case:

Paul Martin
Wellspring Retreat, Inc.

## RULE 29.6 STATEMENT

Applicants NXIVM Corporation and First Principles, Inc. have no parent corporations, and no publicly held company owns 10% or more of their stock.

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## PETITION FOR A WRIT OF CERTIORARI

Petitioners NXIVM Corporation and First Principles, Inc. (collectively, "NXIVM," unless otherwise noted) respectfully petition for a writ of certiorari to review the judgment of the United States Court of Appeals for the Second Circuit in this case.

## JUDGMENT FOR WHICH REVIEW IS SOUGHT

The decision of the court of appeals is reported at 364 F.3d 471, and is reproduced in the Appendix to this Petition ("Pet. App.") at 1a-25a. The order of the United States District Court for the Northern District of New York is not officially reported. It can be found at 2003 WL 22298756 (N.D.N.Y. Sep. 9, 2003), and is reproduced at Pet. App. 26a-27a. That order incorporates by reference the district court's September 8, 2003 oral ruling, the transcript of which is reproduced at Pet. App. 28a-36a.

## JURISDICTION

The decision of the court of appeals was entered on April 20, 2004. Pet. App. 1a. This Court has jurisdiction pursuant to 28 U.S.C. § 1254(1). On July 12, 2004, Justice Ginsburg extended the time for filing a petition in this case to and including August 18, 2004.

## STATUTES OR OTHER PROVISIONS INVOLVED

Relevant portions of the United States Constitution and the Copyright Act of 1976 are reproduced at Pet. App. 37a-38a.

## STATEMENT

In *Harper & Row Publishers, Inc.* v. *Nation Enterprises*, this Court considered a recurring situation that is strikingly

similar to the one that presents itself here—a copyright infringer who obtained an unauthorized copy of copyrighted and confidential materials, but who sought to defend its conduct as "fair use." See generally 471 U.S. 539 (1985). Under such circumstances, this Court held the fair use defense unavailable, reasoning that an alleged infringer who acts in bad faith cannot avail itself of that defense: "'[f]air use presupposes "good faith" and "fair dealing."'" *Id.* at 562-63.

Contrary to *Harper & Row*, the Second Circuit has now ruled that not only is bad faith non-dispositive, but also that it "contributes little to fair use analysis." Pet. App. 10a n.2. It matters seemingly not at all that a defendant has purloined a manuscript, or hacked into a computer or, as here, obtained proprietary materials in violation of a confidentiality agreement—the use of such materials may nonetheless, counterintuitively, be "fair."

This error is made all the worse by a second and related flaw in the court's analysis. The court below concluded, in further conflict with *Harper & Row*, that the illustrative categories of publications identified in the preamble to 17 U.S.C. § 107 (including, pertinent here, "criticism") carry presumptions of validity. In combination with the first error noted above, this means that ill-gotten copyrighted materials may be republished with impunity, and protected as fair use, simply if they can be shoehorned into some category of supposedly favored speech.

These rulings implicate important, recurring issues regarding the proper role of the fair use doctrine in copyright law. This is an era in which digital transmission of information has become the norm, in which piracy has become common, and in which pirated materials can be disseminated to the world with the click of a mouse. As such, it is almost child's play to obtain confidential materials, and when done with malicious intent, can be profoundly harmful to the copyright holder. Accordingly, it is critically important for this Court to clarify the relationship between bad faith,

fair use, and copyright infringement. Clarification is particularly warranted, given the conflict between the ruling below and prior decisions of the Ninth and Federal Circuits over the proper interpretation of *Harper & Row*.

### A. Factual Background

NXIVM operates business training seminars throughout the United States. Its program, known as "Executive Success," teaches business professionals to develop analytical tools and logical approaches to problem-solving. As NXIVM describes its seminars,

> Executive Success Programs, Inc. develops and imparts programs that provide the philosophical and practical foundation necessary to acquire and build the skills for success.
>
> Founded in 1998 by Keith Raniere and Nancy Salzman, Executive Success Programs focuses on creating consistency in all areas, helping individuals develop the practical, emotional, and intellectual skills they need to reach their maximum potential.

NXIVM, Executive Success Programs, *at* http://www.nxivm.com/esp_1024.php (last visited Aug. 12, 2004).

At the heart of the Executive Success training programs is a proprietary methodology (designed by Petitioner First Principles, Inc. and leased to NXIVM), entitled Rational Inquiry, which analyzes the manner in which the mind processes data. This methodology is embodied in the written copyrighted materials that are at the center of this case—materials that are unavailable to the general public; that contain numerous copyright notices; and that are protected by nondisclosure agreements signed by all participants in NXIVM's training programs. Pet. App. 2a-3a.

In 2001, Respondent Stephanie Franco attended Executive Success programs operated by NXIVM. And, as a student, she was provided a copy of NXIVM's copyrighted,

confidential materials. A-858-60.[1] Prior to attending those classes, Franco twice signed a Student Enrollment Application that specifically prohibited her from "cop[ying], duplicat[ing], transmitt[ing], [teaching] or otherwise us[ing]" the program's "materials, methods and information" without "express written permission." A-31, -94, -784. Likewise, the course materials that Franco received highlighted the confidentiality of Executive Success Programs. A-394, -573. At no point did anyone authorize Franco to disclose NXIVM's confidential materials. Nonetheless, Franco's copy of NXIVM's proprietary copyrighted materials was transmitted to Respondent Rick Ross. A-29, -42, -633-34.[2]

Ross is, in his own words, "a consultant and intervention specialist regarding controversial and/or potentially unsafe groups, some of which have been called 'cults,'" A-631—in short, Ross is a would-be cult deprogrammer, A-95. Ross was hired by the parents of Michael Sutton (an Executive Success student, and Stephanie Franco's half-brother) to conduct an "intervention" for Sutton. A-631-33. In the course of the "intervention," Ross obtained from Franco her copy of NXIVM's confidential, copyrighted materials. A-29, -42, -633-34; Pet. App. 3a. It is clear for present purposes that "defendants' copy of the NXIVM manuscript was unauthorized." Pet. App. 9a.

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[1] "A-" citations are to the Joint Appendix submitted in the Second Circuit.

[2] There is some discrepancy as to whether Franco herself gave the materials to Ross, *see* A-29, -42, -634, -792, or if they were transmitted from her to her half-brother Jeffrey Sutton to Ross, *see* A-92, -95-96, -633, but this inconsistency is immaterial—either way, the materials were confidential and nondisclosable; either way, Ross received an unauthorized copy of the materials; and either way, Ross knew that the materials were confidential. Accordingly, the Second Circuit assumed that the materials provided to Ross were unauthorized, Pet. App. 9a, and concluded that defendants knew "or at least very likely knew" as much, *id.* at 6a.

Ross, in turn, commissioned reports on NXIVM by Respondents John Hochman and Paul Martin, "self-styled experts on groups such as NXIVM." Pet. App. 3a; A-54-57, -77-85. "The[se] reports quote sections of the manual in support of their analyses and criticisms and were ultimately made available to the public through Ross's websites." Pet. App. 3a. Martin's report, in particular, included extensive verbatim quotations from NXIVM's proprietary, confidential materials. A-77-85. And both Hochman and Martin knew that materials related to Executive Success Programs were meant to be kept confidential. A-54-55, -81, -640, -647, -650. These proceedings ensued.

### B. Procedural Background

NXIVM brought two lawsuits to seek redress for the misappropriation and infringement of its copyrighted materials. The first suit, filed on August 6, 2003, against The Ross Institute, Ross, Hochman and Franco, sought relief for conversion, breach of contract, misappropriation, conspiracy and product disparagement under the Lanham Act, 15 U.S.C. § 1125. A-15-23. The second suit was filed on August 22, 2003, against The Ross Institute, Ross, Martin, Wellspring Retreat, Inc. (Martin's employer during the relevant period), and Franco. In it, NXIVM sought damages and an injunction for copyright infringement and interference with contractual relations. A-727-41.

Soon thereafter, the district consolidated the two cases, and denied nearly all[3] of the preliminary injunctive relief sought by NXIVM. Pet. App. 26a-27a. The court concluded that the use of NXIVM's proprietary materials by defendants was a "fair use," and accordingly that there was no copyright infringement. *Id.* at 29a-32a. It purported to apply the four-

[3] The court, relying on the confidentiality clause in Franco's course application, did enjoin Franco "from transmitting the materials to anyone other than her attorneys and persons retained by them in connection with these suits." Pet. App. 34a-35a.

factor fair use test set forth in 17 U.S.C. § 107, although it quite clearly erred in its application of that test. Of particular importance here, in the course of considering the first fair use factor—"the purpose and character of the use"—the district court altogether failed to consider "'the propriety of the defendant[s'] conduct,'" as this Court required in *Harper & Row Publishers, Inc.* v. *Nation Enterprises*, 471 U.S. 539, 562-63 (1985). And, nowhere did it acknowledge that "'[f]air use presupposes "good faith" and "fair dealing."'" *Id.*

On appeal, the Second Circuit affirmed the denial of NXIVM's motion for a preliminary injunction. Pet. App. 17a. The court recognized that "[a]t the core of th[e] appeal is the proper weighing, in a copyright infringement suit, of the first of the four statutory fair use factors after *Harper & Row*." *Id.* at 6a. Yet, like the district court, it gave little weight to the fact that, as it assumed, "defendants' copy of the NXIVM manuscript was unauthorized." *Id.* at 9a. Rather, it concluded, "the bad faith of a defendant is not dispositive of a fair use defense," *id.* at 10a; indeed, it held, "the good or bad faith of a defendant ... generally contributes little to fair use analysis," *id.* at 10a n.2; *accord id.* ("a finding of bad faith is not to be weighed very heavily within the first fair use factor and cannot be made central to fair use analysis"). And in reaching this provocative holding, the court below acknowledged that its decision was directly contrary to that of the Federal Circuit in *Atari Games Corp.* v. *Nintendo of America Inc.*, 975 F.2d 832, 843 (Fed. Cir. 1992). Pet. App. 9a.

It compounded this error by concluding, in further conflict with *Harper & Row*, that the categories of publication listed in the preamble to § 107 carry a presumption of validity. Whereas *Harper & Row* held that that preamble "was not intended ... to single out any particular use as presumptively a 'fair' use," 471 U.S. at 561, the court concluded that NXIVM's materials fell within one of the categories enumerated in the preamble (namely, "criticism"), and

therefore that there was a "'strong presumption'" favoring fair use, Pet. App. 7a. These interrelated errors led the court of appeals to affirm the decision of the district court, and provide ample reason for this Court to grant review.

## REASONS FOR GRANTING THE WRIT

This case presents two important questions concerning the scope and purpose of the fair use defense to copyright infringement. First, it poses a square and acknowledged conflict among the circuit courts over whether a defendant accused of copyright infringement may seek refuge in the fair use defense, despite having acquired unauthorized copies of the copyrighted materials. The court below accepted that the allegedly infringing works authored by defendants Martin and Hochman were based upon improperly obtained copies of NXIVM's confidential materials, but nonetheless concluded that this use of NXIVM's materials was likely fair. This conclusion is inconsistent with this Court's precedent; disregards a long history of treating good faith as a prerequisite to the fair use defense; and conflicts with decision of the Ninth and Federal Circuits. Indeed, in the course of reaching this conclusion, the Second Circuit forthrightly recognized that the same case would have been decided differently had it been heard by the Federal Circuit.

Review of this same question is further warranted because the conflict in the circuits is largely attributable to ambiguity in this Court's decisions—which ambiguity, of course, can only be cured by this Court.

Second, this Court should grant certiorari to correct the Second Circuit's erroneous conclusion that an infringer's use of copyrighted materials for purposes of "criticism" carries some presumption of fairness. This reasoning, which is only the latest in a line of similarly erroneous cases in the Second Circuit—and which has since been adopted by the Fourth

Circuit—is foreclosed by decisions of this Court holding that such presumptions are inappropriate.

## I. THIS COURT SHOULD GRANT CERTIORARI TO RESOLVE A DECISIONAL CONFLICT OVER WHETHER UNAUTHORIZED COPYING PRECLUDES THE FAIR USE DEFENSE.

### A. Certiorari Is Warranted Because Of A Square Conflict Among the Circuit Courts.

The Copyright Clause of the United States Constitution affords Congress the power "[t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries." U.S. Const. art. I, § 8, cl. 8. Acting pursuant to that power, Congress has, since the earliest days of the Republic, protected the exclusive right of a copyright holder to publish and reproduce his works during the term of a copyright. See Act of May 31, 1790, ch. 15, § 1, 1 Stat. 124, 124 (1790 Copyright Act). This centuries-old copyright protection is now embodied in 17 U.S.C. § 106.

"The copyright owner's rights, however, are subject to certain statutory exceptions. [17 U.S.C.] §§ 107-118. Among these is § 107, which codifies the traditional privilege of other authors to make 'fair use' of an earlier writer's work." *Harper & Row*, 471 U.S. at 547. The fair use privilege, as *Harper & Row* indicates, arose as a common-law doctrine, and "was traditionally defined as 'a privilege in others than the owner of a copyright to use the copyrighted material in a reasonable manner without his consent.'" *Id.* at 549 (quoting Horace G. Ball, *Law of Copyright and Literary Property* 260 (1944)); see also *Campbell* v. *Acuff-Rose Music, Inc.*, 510 U.S. 569, 576 (1994) (citing *Folsom* v. *Marsh*, 9 F. Cas. 342 (C.C.D. Mass. 1841) (No. 4,901)).

Fair use is now embodied in § 107 as a nonexclusive multifactor test[4] that is meant simply to restate the longstanding common-law principles. See *Harper & Row*, 471 U.S. at 549; H.R. Rep. No. 94-1476, at 66 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5680 ("Section 107 is intended to restate the present judicial doctrine of fair use, not to change, narrow, or enlarge it in any way.").

At common law and since, fair use has operated as "'an equitable rule of reason.'" *Sony Corp. of Am.* v. *Universal City Studios, Inc.*, 464 U.S. 417, 448 (1984) (quoting H.R. Rep. No. 94-1476, at 65, *reprinted in* 1976 U.S.C.C.A.N. at 5679); see *Fisher* v. *Dees*, 794 F.2d 432, 435 (9th Cir. 1986) ("fair-use doctrine" is "an equitable defense"). This is unsurprising—the very name of the doctrine (*fair* use) reveals that concerns of equity are paramount. And, like many other equitable doctrines, "'Fair use presupposes "good faith" and "fair dealing."'" *Harper & Row*, 471 U.S. at 562.

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[4] Section 107 provides:

> Notwithstanding the provisions of sections 106 and 106A, the fair use of a copyrighted work, including such use by reproduction in copies or phonorecords or by any other means specified by that section, for purposes such as criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship, or research, is not an infringement of copyright. In determining whether the use made of a work in any particular case is a fair use the factors to be considered shall include—
>
> (1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes;
>
> (2) the nature of the copyrighted work;
>
> (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and
>
> (4) the effect of the use upon the potential market for or value of the copyrighted work.
>
> The fact that a work is unpublished shall not itself bar a finding of fair use if such finding is made upon consideration of all the above factors.

17 U.S.C. § 107.

The treatment of good faith as a precondition to the application of the fair use doctrine has a long historical pedigree. In *Cary* v. *Kearsley* (an 1803 English case that has been identified as a source of the fair use doctrine, and was cited with approval in *Campbell*, see 510 U.S. at 575-76), it was held that *animus furandi*—the intent to steal, see *Black's Law Dictionary* 97 (8th ed. 2004)—precludes a determination that the copyrighted material was "used fairly." 170 Eng. Rep. 679, 680 (K.B. 1803).

Thus, "the court is ... required to determine whether the use was motivated by *animus furandi*.... [The] presence [of *animus furandi*] operates to deprive the appropriator of the privilege of fair use." William F. Patry, *The Fair Use Privilege in Copyright Law* 1 . (2d ed. 1995) (discussing *Cary* and citing additional cases). Simply put, "the requirement that a would-be fair user act in good faith was firmly articulated in early English and American case law." *Id.* at 130. Later cases have formulated this venerable principle in the same fashion repeated in *Harper & Row*: "'Fair use presupposes "good faith" and "fair dealing."'" See, *e.g.*, *Time Inc.* v. *Bernard Geis Assocs.*, 293 F. Supp. 130, 146 (S.D.N.Y. 1968), *quoted with approval in Harper & Row*, 471 U.S. at 562; see also 4 Melville B. Nimmer & David Nimmer, *Nimmer on Copyright* § 13.05[A][1][d], at 13-170.2 (2004) ("knowing use of a purloined manuscript militates against a fair use defense").

The good faith requirement for fair use has, however, been applied in conflicting fashion, as the decision below makes plain. Indeed, it is the subject of a square and acknowledged conflict in the circuits—including, of particular importance where copyright is concerned, the Second, Ninth and Federal Circuits. (Moreover, as noted below, this inconsistency in the circuits stems from arguably inconsistent statements in opinions of this Court, which only this Court can clarify. See *infra* at 13-16.)

In this case, the Second Circuit declined to accord dispositive effect to the fact that Ross obtained, and Martin and Hochman quoted and relied upon, unauthorized copies of NXIVM's materials. As a factual matter, there is no question that bad faith was at issue, as the Second Circuit properly recognized. Defendants obtained proprietary materials that were distributed to them in clear violation of a written confidentiality agreement. As the Second Circuit put it, "defendants must have known (or at least very likely knew) that the unpublished manuscript from which quotations were taken and which was disseminated on the internet was acquired in an unauthorized fashion." Pet. App. 6a; *accord id.* at 9a ("we assume defendants' copy of the NXIVM manuscript was unauthorized").

Nonetheless, the court held that defendants' use of unauthorized documents did not preclude application of the fair use doctrine, and rejected such a reading of *Harper & Row*. Pet. App. 9a. Despite *Harper & Row*'s plain ruling that "fair use *presupposes* good faith," 471 U.S. at 562 (emphasis added; quotation marks omitted), the court below concluded "that 'nothing in *Harper & Row* indicates that the defendants' bad faith is itself conclusive of the fair use question, or even of the first [fair use] factor,'" Pet. App. 10a (brackets in original omitted); see also *id.* at 16a ("Even a finding of bad faith by defendants would not automatically preclude finding that their use was fair use."). To be sure, the court purported to acknowledge that *Harper & Row* "directs courts to consider a defendant's bad faith in applying the first statutory factor." *Id.* at 8a. But this was mere lip service, for in the end, the court concluded that a defendant's bad faith "generally contributes little to fair use analysis," and "is not to be weighed very heavily within the first fair use factor and cannot be made central to fair use analysis." *Id.* at 10a n.2.

This conclusion, as the Second Circuit recognized, Pet. App. 9a, squarely conflicts with an earlier decision of the Federal Circuit. In *Atari Games Corp.* v. *Nintendo of*

*America Inc.*, the Federal Circuit considered Atari's invocation of the fair use defense, in a case arising out of Atari's reverse engineering of the Nintendo game system. 975 F.2d 832 (Fed. Cir. 1992). The court held, directly contrary to the Second Circuit in the decision below, that the fair use defense was unavailable because Atari had obtained unauthorized copies of Nintendo's source code: "To invoke the fair use exception, an individual must possess an authorized copy ...." *Id.* at 843; *accord id.* ("Because Atari was not in authorized possession..., any copying or derivative copying ... does not qualify as a fair use."); *id.* at 842 ("The Copyright Act permits an individual *in rightful possession* of a copy of a work to undertake necessary efforts to understand the work's ideas, processes, and methods of operation." (emphasis added)).

The Federal Circuit's *Atari* decision, had the Second Circuit followed it here, would have required a decision in favor of NXIVM in this case: "[T]he rule enunciated in *Atari* would foreclose the fair use defense altogether based upon defendants' bad faith." Pet. App. 9a. The split between these two circuits could not be starker.

The Ninth Circuit has adopted yet a third, middle-ground, position. Whereas the Federal Circuit grants dispositive effect to a defendant's use of unauthorized copyrighted materials, and the decision below holds that the use of unauthorized materials "contributes little to fair use analysis," the Ninth Circuit treats bad faith as a factor to be seriously considered in applying the fair use analysis. In *Marcus* v. *Rowley*, for instance, that court held that "[b]ecause fair use presupposes that the defendant has acted fairly and in good faith, the propriety of the defendant's conduct should also be weighed in analyzing the purpose and character of the use." 695 F.2d 1171, 1175-76 (9th Cir. 1983); see also *Los Angeles News Serv.* v. *KCAL-TV Channel 9*, 108 F.3d 1119, 1122 (9th Cir. 1997); *Fisher*, 794 F.2d at 436-37.

Review is warranted all the more because this conflict concerns decisions of the Second and Ninth Circuits on an issue of copyright law. Those two courts have a disproportionate influence on intellectual property by simple dint of the fact that intellectual property-holders are disproportionately located in those two states. Cf. S. Rep. No. 102-141, at 3 (1991) ("The rulings of the second circuit in this area of law are particularly influential because this circuit has jurisdiction over the core of the Nation's book and magazine publishing industry."). In 2003, for instance, the Second and Ninth Circuits heard fully 40% of the intellectual property cases in the geographic courts of appeals. See Administrative Office of U.S. Courts, Federal Judicial Caseload Statistics, tbl.B-7, at 31 (Mar. 31, 2003), *available at* http://www.uscourts.gov/caseload2003/tables/B07Mar03.pdf. And the participation of the Federal Circuit, which is the court of appeals with specialized expertise in intellectual property, in this circuit split makes the case for review particularly compelling.[5]

### B. Certiorari Is Warranted Because Of Ambiguity In This Court's Decisions That Only This Court Can Clarify.

Review is further necessary because the conflict in the lower courts results in large measure from perceived ambiguity in this Court's fair use analyses—which, of course, only this Court can rectify.

As noted above, this Court in *Harper & Row* held, in strikingly clear fashion, that good faith is required for the fair

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[5] The lack of clarity in the legal standards that warrants review by this Court is further demonstrated by the conflict of authority within the Northern District of California, the home of Silicon Valley. Whereas one court has relied on *Atari* to conclude that fair use requires good faith, *see Sega Enters. Ltd.* v. *MAPHIA*, 857 F. Supp. 679, 683, 687 (N.D. Cal. 1994), another court within that same district has rejected *Sega* and concluded that "bad faith ... cannot be considered dispositive," *Religious Tech. Ctr.* v. *Netcom On-Line Communication Servs., Inc.*, 923 F. Supp. 1231, 1244 & n.14 (N.D. Cal. 1995).

use defense to be available. 471 U.S. at 562. The language employed by the Court in that case—that fair use "presupposes" good faith—clearly indicates that good faith is a prerequisite to fair use. See *Webster's Third New International Dictionary* 1796 (1993) (defining "presuppose" as "to require as a necessary antecedent condition").

In a subsequent decision, however, the Court cast doubt on the clear ruling in *Harper & Row*, but only, if at all, implicitly. In *Campbell*, the Court again considered the fair use defense, and at no point did it purport to overrule *Harper & Row*, or to disavow the clear statement that fair use presupposes good faith. But it spoke of the relevance of good faith in the subjunctive mood, as though that consideration is not in fact important: "*Even if good faith were central to fair use*, [defendants'] actions do not necessarily suggest that they believed their version was not fair use ...." 510 U.S. at 585 n.18 (emphasis added). This ambiguity was heightened still further with a conditional statement about fair use, see *id.* ("regardless of the weight one *might place* on the alleged infringer's state of mind" (emphasis added)), and with a string citation that seemingly placed *Harper & Row* on equal footing with a law review article by a Second Circuit judge that argued good faith is irrelevant, and which is now the law of the Second Circuit.[6]

The uncertainty engendered by these opinions is ably demonstrated by the opinions below, in which the court went through contortions in an effort to pay fealty to, if not actually follow, both *Harper & Row* and *Campbell*. On the one hand, the majority did claim to "follow" *Harper & Row* (notwithstanding its disregard of that opinion's statement that

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[6] *See Campbell*, 510 U.S. at 585 n.18 ("[R]egardless of the weight one might place on the alleged infringer's state of mind, compare *Harper & Row*, ... (fair use presupposes good faith and fair dealing) ..., with *Folsom v. Marsh*, ... (good faith does not bar a finding of infringement); Leval[, *Toward a Fair Use Standard*, 103 Harv. L. Rev. 1105,] 1126-1127 [(1990)] (good faith irrelevant to fair use analysis) ....).

fair use "presupposes" good faith). Pet. App. 10a n.2. At the same time, it purported to follow *Campbell* for the mutually exclusive proposition that "the good or bad faith of a defendant ... generally contributes little to fair use analysis." *Id.* In the end, it was left to "await from the Supreme Court" further guidance on the issue. *Id.* at 11a n.2. That guidance should be forthcoming in this case.

Judge Jacobs filed a concurring opinion in which he, too, perceived inconsistency in this Court's precedents. On the one hand, he first treated *Campbell* as having contravened *Harper & Row*: "[E]ven if *Harper & Row* did state in passing that fair use presupposes good faith, *Campbell* reopened the question." Pet. App. 21a. Of course, *Campbell* nowhere purported to overrule *Harper & Row*, and mentioned it only in passing. 510 U.S. at 585 n.18. Accordingly, Judge Jacobs could not treat *Campbell* as implicitly having overruled *Harper & Row*, see *State Oil Co.* v. *Khan*, 522 U.S. 3, 20 (1997) ("it is [the Supreme Court's] prerogative alone to overrule one of its precedents"), despite his strong suggestion that it had done so. Thus, later in his concurring opinion, Judge Jacobs acknowledged that "the Supreme Court has never expressly disavowed" *Harper & Row*. Pet. App. 24a. In the end, he simply insisted that "*Campbell* ... invites and provokes discussion of the issue as an open question." *Id.* Were the choice his, he would accord good faith *no* role in the consideration of fair use. *Id.* at 19a.

Four positions concerning bad faith have now been staked out: Bad faith is either dispositive; significant, all but irrelevant; or irrelevant. It is no wonder that scholars have recognized that "the obscure doctrine of fair use [is] 'the most troublesome in the whole law of copyright.'" 4 Nimmer, *supra*, § 13.05, at 13-150. That general observation is nowhere more clear than here, where ambiguous and arguably contradictory statements in opinions of this Court have led to a square conflict of authority among the three circuits that bear the primary burden of adjudicating intellectual property

disputes. Only this Court can clear up this confusion, and it should do so here.

## II. THE DECISION BELOW SQUARELY CONFLICTS WITH THIS COURT'S HOLDINGS CONCERNING THE PROPER INTERPRETATION OF THE PREAMBLE TO 17 U.S.C. § 107.

Review is further warranted because the decision below erred in its interpretation of the preamble to 17 U.S.C. § 107. Contrary to the clear holding of this Court in *Harper & Row*, it erroneously treated the categories of publication in that preamble as presumptively fair uses.

Section 107, as noted above, was meant to embody and preserve the existing equitable common-law approach to fair use. To that end, it listed four nonexclusive factors to be considered when determining whether a use is fair. And it likewise identified, in its preamble, certain types of uses that may be fair—namely, "purposes such as criticism, comment, news reporting, teaching ..., scholarship, or research." 17 U.S.C. § 107.

However, the Court in *Harper & Row* made it absolutely clear that the purposes listed in the preamble to § 107 are not presumptively fair: "This listing was not intended ... to single out any particular use as presumptively a 'fair' use." 471 U.S. at 561; *Campbell*, 510 U.S. at 584 (same); see also *Harper & Row*, 471 U.S. at 561 ("The fact that an article arguably is 'news' and therefore a productive use is simply one factor in a fair use analysis."). Indeed, Congress considered and rejected efforts to institute such presumptions: "The drafters resisted pressures from special interest groups to create presumptive categories of fair use, but structured the provision as an affirmative defense requiring a case-by-case analysis." *Harper & Row*, 471 U.S. at 561 (citing H.R. Rep. No. 90-83, at 37 (1967)); see *Campbell*, 510 U.S. at 584 (citing H.R. Rep. No. 94-1476, at 66, *reprinted in* 1976 U.S.C.C.A.N. at 5680); Patry, *supra*, at 418 ("Uses fitting

within one of the six categories [in the preamble] are not, however, presumptively fair.").

The decision below is irreconcilable with these decisions. After having concluded that the purpose of the publications was "criticism" (and therefore encompassed within the preamble to § 107), the court below applied precisely the sort of presumption that *Harper & Row* and *Campbell* forbid. "'[T]here is a strong presumption that factor one favors the defendant if the allegedly infringing work fits the description of uses described in § 107.'" Pet. App. 7a. If presumptions are foreclosed, "strong presumption[s]" certainly must be.

Nor is this an isolated mistake; on the contrary, as the court below itself recognized, Second Circuit authority required this result. Pet. App. 7a; see *Wright* v. *Warner Books, Inc.*, 953 F.2d 731, 736 (2d Cir. 1991). This same mistake has been promulgated both by and within the Second Circuit. See *Arica Inst., Inc.* v. *Palmer*, 970 F.2d 1067, 1077 (2d Cir. 1992); *Robinson* v. *Random House, Inc.*, 877 F. Supp. 830, 840 (S.D.N.Y. 1995) ("if a use fits within one of the favored uses, the use is considered presumptively fair"); *Hofheinz* v. *AMC Prods, Inc.*, 147 F. Supp. 2d 127, 138 (E.D.N.Y. 2001). And, significant here, the Fourth Circuit has now relied upon and repeated the Second Circuit's error. See *Sundeman* v. *Seajay Soc'y, Inc.*, 142 F.3d 194, 203 (4th Cir. 1998) (citing *Wright*). This Court should grant review to correct this longstanding error in the jurisprudence of the Second Circuit, which conflicts directly with decisions of this Court.

## CONCLUSION

For the foregoing reasons, the petition for a writ of certiorari should be granted.

Respectfully submitted,

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August 18, 2004

**APPENDIX A**

UNITED STATES COURT OF APPEALS
SECOND CIRCUIT

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No. 03-7952

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NXIVM CORPORATION and First Principles, Inc.,
*Plaintiffs-Appellants*,

v.

THE ROSS INSTITUTE, Rick Ross also known as Ricky Ross, John Hochman, and Stephanie Franco,
*Defendants-Appellees*,

Paul Martin and Wellspring Retreat, Inc.,
*Consolidated-Defendants-Appellees*.

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Argued Nov. 19, 2003
Decided April 20, 2004

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Before: WALKER, *Chief Judge*, JACOBS and STRAUB, *Circuit Judges*.

Judge JACOBS concurs in the majority opinion and in a separate concurring opinion.

JOHN M. WALKER, JR., *Chief Judge*.

This case presents us with an opportunity to examine the import of the Supreme Court's holding in *Harper & Row Publishers, Inc. v. Nation Enters.*, 471 U.S. 539, 105 S.Ct. 2218, 85 L.Ed.2d 588 (1985), that "'the propriety of the defendant's conduct'" is relevant to the "'character'" of the use under the first factor of the statutory fair use test for copyright infringement. *Id.* at 562, 105 S.Ct. 2218 (quoting 3

M. Nimmer, Copyright § 13.05[A], at 13-72 (1984)); *see* 17 U.S.C. § 107 (enumerating the fair use factors). Because a full balancing of the statutory fair use factors of § 107, including an evaluation of the propriety of defendants' conduct, favors the relevant defendants-appellees in this case, we affirm.

Plaintiffs-appellants NXIVM and First Principles, Inc. (collectively, "NXIVM"), producers of business training seminars, appeal from the decision of the United States District Court for the Northern District of New York (Thomas J. McAvoy, *District Judge* ), denying a preliminary injunction against various defendants-appellees who were alleged to have infringed NXIVM's copyrighted course materials by posting part of them on the internet. Although we find that the district court erred in its application of the first statutory fair use factor, we ultimately agree that NXIVM cannot show a likelihood of success on the merits. Accordingly, we affirm. *See Adirondack Transit Lines, Inc. v. United Trans. Union, Local 1582*, 305 F.3d 82, 88 (2d Cir.2002) ("[W]e are entitled to affirm . . . on any ground for which there is support in the record, even if not adopted" by the district court); *see also AmBase Corp. v. City Investing Co. Liquidating Trust*, 326 F.3d 63, 72 (2d Cir.2003)(same); *Wright v. Giuliani*, 230 F.3d 543, 547 (2d Cir.2000).

## I. BACKGROUND

NXIVM provides a course manual for the paid subscribers to its exclusive and expensive seminar training program known as "Executive Success." The 265-page manual contains a copyright notice on virtually every page and all seminar participants sign non-disclosure agreements, purporting to bar them from releasing the manuscript or proprietary techniques learned in the seminars to others. It is unpublished in the sense that it is not available to the general public. NXIVM claims to have developed a proprietary

"technology" called "Rational Inquiry," ™ a methodology to improve communication and decision-making.

Defendant Rick Ross runs nonprofit websites, *www.rick-ross.com* and *www.cultnews.com,* in connection with his work as a for-profit "cult de-programmer." The websites provide information to the public about controversial groups, about which complaints of mind control have been lodged. Ross allegedly learned of NXIVM's activities in the course of his de-programming services, obtaining the manuscript indirectly from defendant Stephanie Franco, a one-time NXIVM participant.

Two reports authored separately by defendants John Hochman and Paul Martin, self-styled experts on groups such as NXIVM, were commissioned by Ross; they analyze and critique the materials from the manual. The reports quote sections of the manual in support of their analyses and criticisms and were ultimately made available to the public through Ross's websites. One of the reports plainly acknowledges that NXIVM has "intellectual property rights" in its materials and that NXIVM makes an effort to keep its manual "confidential." This report seems to appreciate that its access to the copyrighted materials was unauthorized, although this is likely a disputed issue of fact.

NXIVM sued Ross and various co-defendants for copyright infringement under 17 U.S.C. §§ 106 & 106A, trademark disparagement under the Lanham Act, 15 U.S.C. § 1125(a), and interference with contractual relations under state law (because the materials were allegedly procured through defendant Franco's purported violation of her non-disclosure agreement). Principally on the basis of the copyright infringement claim, NXIVM moved for a preliminary injunction to require that defendants remove the copyrighted information from Ross's websites.

The district court denied the preliminary injunction, finding no likelihood of NXIVM's success on the merits because defendants' fair use defense was likely to succeed. *See Random House, Inc. v. Rosetta Books LLC*, 283 F.3d 490, 491 (2d Cir.2002) (per curiam). However, the district court preliminarily enjoined Stephanie Franco from any further release of NXIVM's materials. NXIVM appealed.

## II. DISCUSSION

### A. Legal Standards

We review the denial of a preliminary injunction for an abuse of discretion. *See Zervos v. Verizon New York, Inc.*, 252 F.3d 163, 171 (2d Cir.2001). But we may affirm on any ground supported by the record. *AmBase Corp.*, 326 F.3d at 72. A party seeking a preliminary injunction in this circuit must show: (1) irreparable harm in the absence of the injunction and (2) either (a) a likelihood of success on the merits or (b) sufficiently serious questions going to the merits to make them a fair ground for litigation and a balance of hardships tipping decidedly in the movant's favor. *ABKCO Music, Inc. v. Stellar Records, Inc.*, 96 F.3d 60, 64 (2d Cir.1996). In a copyright case, the irreparable harm requirement can be met by proof of a likelihood of success on the merits. *Id.*

To demonstrate a likelihood of success on the merits of its copyright claim, NXIVM must establish that it owns a valid copyright and that defendants have engaged in unauthorized copying. *See id.* Defendants can defeat this *prima facie* showing of infringement, however, by demonstrating that their copying is protected by the fair use doctrine. *See Tufenkian Import/ Export Ventures, Inc. v. Einstein Moomjy, Inc.*, 338 F.3d 127, 131 (2d Cir.2003); *Infinity Broad. Corp. v. Kirkwood*, 150 F.3d 104, 107 (2d Cir.1998). The factors relevant to determining whether fair use applies to a

particular case are set forth in 17 U.S.C. § 107, which provides:

> Notwithstanding the provisions of sections 106 and 106A, the fair use of a copyrighted work . . . for purposes such as criticism, comment, news reporting, teaching . . ., scholarship, or research, is not an infringement of copyright. In determining whether the use made of a work in any particular case is a fair use the factors to be considered shall include—
>
> (1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes;
>
> (2) the nature of the copyrighted work;
>
> (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and
>
> (4) the effect of the use upon the potential market for or value of the copyrighted work.
>
> The fact that a work is unpublished shall not itself bar a finding of fair use if such finding is made upon consideration of all the above factors.

Although defendants bear the burden of proving that their use was fair, see *Infinity*, 150 F.3d at 107, they need not establish that each of the factors set forth in § 107 weighs in their favor. *Wright v. Warner Books, Inc.*, 953 F.2d 731, 740 (2d Cir.1991). Instead, all factors must be explored and the results weighed together in light of the purposes of copyright and the fair use defense. *See Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 578, 114 S.Ct. 1164, 127 L.Ed.2d 500 (1994).

B. Defendants' Fair Use Defense

At the core of this appeal is the proper weighing, in a copyright infringement suit, of the first of the four statutory fair use factors after *Harper & Row*, 471 U.S. at 539, 105 S.Ct. 2218. We must decide whether the district court should have more fully and explicitly considered, in its analysis of the first factor, that defendants must have known (or at least very likely knew) that the unpublished manuscript from which quotations were taken and which was disseminated on the internet was acquired in an unauthorized fashion. We conclude that the district court did not fully analyze the impact of defendants' alleged misappropriation of the NXIVM manual in assessing fair use. Accordingly, we cannot adopt the district court's fair use analysis in whole. However, following our own review of the relevant factors, including the subfactor that the district court failed to address fully and explicitly within the first factor, we conclude that the doctrine of fair use still defeats any likelihood of plaintiffs' success on the merits. Accordingly, we affirm the denial of the preliminary injunction.

We turn to the four-factor test for fair use.

1. The "purpose and character" inquiry

The court's function, in inquiring into "the purpose and character of the use," 17 U.S.C. § 107(1), is:

> to see, in Justice Story's words, whether the new work merely 'supersede[s] the objects' of the original creation, or instead adds something new, with a further purpose or different character, altering the first with new expression, meaning, or message . . . , in other words, whether and to what extent the new work is 'transformative.' . . . [T]he goal of copyright, to promote science and the arts, is generally furthered by the creation of transformative works. Such [transformative]

> works thus lie at the heart of the fair use doctrine's guarantee of breathing space . . .

*Campbell*, 510 U.S. at 579, 114 S.Ct. 1164 (citations omitted) (alterations in original). We agree with the district court that the websites' use of quotations from the manual to support their critical analyses of the seminars is transformative. As we held in *Wright*, "there is a strong presumption that factor one favors the defendant if the allegedly infringing work fits the description of uses described in § 107." *Wright*, 953 F.2d at 736. Where the defendants' use is for the purposes of "criticism, comment . . . scholarship, or research," 17 U.S.C. § 107, factor one will normally tilt in the defendants' favor.

This presumption, moreover, is not necessarily rebutted by a concurrent commercial purpose on a defendant's part, here the fact that Ross and Martin also run for-profit businesses in connection with their criticisms. The Supreme Court in *Campbell* rejected the notion that the commercial nature of the use could by itself be a dispositive consideration. The *Campbell* opinion observes that "nearly all of the illustrative uses listed in the preamble paragraph of § 107, including news reporting, comment, criticism, teaching, scholarship, and research . . . 'are generally conducted for profit,'" *Campbell,* 510 U.S. at 584, 114 S.Ct. 1164 (quoting *Harper & Row*, 471 U.S. at 592, 105 S.Ct. 2218)(Brennan, J., dissenting), and that Congress "could not have intended" a rule that commercial uses are presumptively unfair. *Id.* The commercial objective of the secondary work is only a subfactor within the first factor. "[T]he more transformative the new work, the less will be the significance of other factors, like commercialism, that may weigh against a finding of fair use." *Id.* at 579, 114 S.Ct. 1164. Finding the work substantially transformative, the district court properly discounted the secondary commercial nature of the use.

What the district court did not fully and explicitly consider, and what NXIVM correctly urges that it should have considered, is "the propriety of [a] defendant's conduct," as directed by *Harper & Row*, 471 U.S. at 562-63, 105 S.Ct. 2218 (citations omitted). Our circuit has recognized that this is an integral part of the analysis under the first factor. *Wright*, 953 F.2d at 737; *see also Los Angeles News Serv. v. KCAL-TV Channel 9*, 108 F.3d 1119, 1122 (9th Cir.1997) (finding analysis of the defendant's conduct to be relevant "at least to the extent that [the defendant] may knowingly have exploited a purloined work for free that could have been obtained for a fee"). While some have commented that this inquiry is counter-indicated by the policy interests supporting copyright and fair use protections, *see, e.g.*, Pierre N. Leval, *Toward a Fair Use Standard*, 103 Harv. L.Rev. 1105, 1126-28 (1990) (arguing against considering the defendants' good or bad faith), *Harper & Row* directs courts to consider a defendant's bad faith in applying the first statutory factor.

Thus, to the extent that Ross, Martin, or Hochman knew that his access to the manuscript was unauthorized or was derived from a violation of law or breach of duty, this consideration weighs in favor of plaintiffs. Moreover, it has been considered relevant within this subfactor that a defendant could have acquired the copyrighted manuscript legitimately; in this case, the relevant defendants could have paid the requisite fee to enroll in NXIVM's seminars.[1] *See generally* William F. Patry, The Fair Use Privilege in

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[1] With the district court, we decline to rule on the enforceability of the particular non-disclosure agreement NXIVM requires its participants to sign; nothing here turns upon it and the issue is not properly before us. We do note, however, that even if the non-disclosure agreement were enforceable, a violation of that agreement would be a breach of a contractual duty but would not *ipso facto* be a copyright infringement. On the other hand, such a violation of a contractual duty, if it were found to be an enforceable duty, would be relevant in assessing the bad faith subfactor within the first factor.

Copyright Law 109, 130-32 (2d ed.1995). The district court should have more fully and explicitly considered defendants' bad faith within its analysis of the first factor and did not. For the purposes of our analysis here, we assume defendants' bad faith and weigh this subfactor in favor of plaintiffs.

But just how much weight within the first factor should a court place on this subfactor of bad faith? Some courts have found *Harper & Row* to stand for the broad proposition that "[t]o invoke the fair use exception, an individual must possess an authorized copy of a literary work." *Atari Games Corp. v. Nintendo of Am. Inc.*, 975 F.2d 832, 843 (Fed.Cir.1992). Since we assume defendants' copy of the NXIVM manuscript was unauthorized, the rule enunciated in *Atari* would foreclose the fair use defense altogether based upon defendants' bad faith.

However, we read *Harper & Row*'s holding more narrowly than the broad proposition suggested by *Atari*. In *Harper & Row*, the defendants knowingly acquired a "purloined manuscript" for the very purpose of preempting the plaintiff's first publication rights, rights already sold by the copyright owner, for which the defendants had an opportunity to bid. The Court wrote that the defendants' "use had not merely the incidental effect but the *intended purpose* of supplanting the copyright holder's commercially valuable right of first publication." 471 U.S. at 562, 105 S.Ct. 2218. Ultimately, the Court rejected the fair use defense in *Harper & Row*, not just because of the defendants' bad faith, but also because the defendants had failed to make any substantial transformative use of the copyrighted work. *Id.* at 543, 105 S.Ct. 2218. Here, while NXIVM urges that its first publication rights were similarly "scoop[ed]," *id.* at 542, 556, 562, 105 S.Ct. 2218, defendants' use in this case was quite plainly critical and transformative. *See also Chicago Bd. of Educ. v. Substance, Inc.*, 354 F.3d 624, 628 (7th Cir.2003)

(distinguishing *Harper & Row* on the basis that *Harper & Row* did not involve criticism of the copyrighted work).

Because the *Harper & Row* Court did not end its analysis of the fair use defense after considering and ascertaining the defendants' bad faith there, we believe that the bad faith of a defendant is not dispositive of a fair use defense. Instead, we agree with the court in *Religious Tech. Ctr. v. Netcom On-Line Communication Servs., Inc.*, 923 F.Supp. 1231, 1244 n. 14 (N.D.Cal.1995), that "[n]othing in *Harper & Row* indicates that [the defendants'] bad faith [is] itself conclusive of the fair use question, or even of the first factor." Moreover, "[a]fter *Campbell*, it is clear that a finding of bad faith, or a finding on any one of the four factors, cannot be considered dispositive." *Id.*; *see also Campbell*, 510 U.S. at 578, 114 S.Ct. 1164 (emphasizing that no single fair use factor is dispositive and warning against the application of "bright-line rules" in fair use analysis); 4 Melville B. Nimmer & David Nimmer, Nimmer on Copyright § 13.05[A][1][d] (2003)(noting that "knowing use of a purloined manuscript militates against a fair use defense," but not suggesting that bad faith is an absolute bar to fair use).[2]

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[2] *Campbell* provides further support for the proposition that while the good or bad faith of a defendant generally should be considered, it generally contributes little to fair use analysis. *See Campbell*, 510 U.S. at 585 n. 18, 114 S.Ct. 1164. In *Campbell* the Court found, in the context of a parody made by the defendants, that the defendants' request for permission to use the original copyrighted work and the plaintiffs' denial of that permission could not—as an evidentiary matter—be used to show that the defendants believed that their use was not fair. The Court wrote that "regardless of the weight one might place on the alleged infringer's state of mind," and that "[e]ven if good faith were central to fair use . . . being denied permission to use a work does not weigh against a finding of fair use." 510 U.S. at 585 n. 18, 114 S.Ct. 1164 (citing *Harper & Row*, 471 U.S. at 562, 105 S.Ct. 2218) (citation omitted). We believe this analysis further supports our conclusion that a finding of bad faith is not to be weighed very heavily within the first fair use factor and cannot be made central to fair use analysis. The Court recognized the continuing

Thus, while the subfactor pertaining to defendants' good or bad faith must be weighed, and while it was error for the district court not to have fully and explicitly considered it, we find that even if the bad faith subfactor weighs in plaintiffs' favor, the first factor still favors defendants in light of the transformative nature of the secondary use as criticism. If no statutory factor can be dispositive after *Campbell,* neither can a single subfactor be, *a fortiori.*

2. The "nature of the copyrighted work" inquiry

The parties do not dispute that because the copyrighted work is unpublished, the district court properly found the second factor, "the nature of the copyrighted work," to favor plaintiffs. *See Harper & Row*, 471 U.S. at 564, 105 S.Ct. 2218 ("The fact that a work is unpublished is a critical element in its 'nature,'" and "the scope of fair use is narrower with respect to unpublished works.") (citations omitted); *but see* 17 U.S.C. § 107 ("The fact that a work is unpublished shall not itself bar a finding of fair use if such finding is made upon consideration of all the above factors.").

3. The "amount and substantiality" inquiry

Consideration of the third factor, "the amount and substantiality of the portion used in relation to the copyrighted work as a whole," 17 U.S.C. § 107(3), "has both a quantitative and a qualitative component," *New Era Pubs. Int'l, ApS v. Carol Publ'g Group*, 904 F.2d 152, 158 (2d Cir.1990). The factor favors copyright holders where the portion used by the alleged infringer is a significant percentage of the copyrighted work, or where the portion used is "essentially the heart of" the copyrighted work,

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relevance of *Harper & Row,* but clarified that the bad faith subfactor can be de-emphasized and will not be dispositive of the first factor or fair use. We follow *Harper & Row* and await from the Supreme Court a clearer renunciation than the *Campbell* footnote of bad faith's relevance (however attenuated) to the fair use inquiry.

*Harper & Row*, 471 U.S. at 565, 105 S.Ct. 2218 (internal quotation marks omitted). Courts have also considered "whether the quantity of the material used was reasonable in relation to the purpose of the copying." *Am. Geophysical Union v. Texaco Inc.*, 60 F.3d 913, 926 (2d Cir.1994)(internal quotation marks omitted).

The district court found that this factor was "at best, neutral," because: (1) defendants copied from only 17 pages of a manual 500 pages long; (2) the "heart" of the work for which plaintiffs were seeking protection, the actual process or idea of "Rational Inquiry," is not copyrightable expression under 17 U.S.C. § 102(b); and (3), in any event, this "heart" could not be summed up in the 17 pages that were copied. As to (3), the district court essentially found that there was no "identifiable core that could be appropriated," *Maxtone-Graham v. Burtchaell*, 803 F.2d 1253, 1263 (2d Cir.1986).

NXIVM takes issue with the district court's analysis. First, plaintiffs claim that the district court erred in its counting that defendants quote from 17 pages of "over 500 pages of course materials." NXIVM argues that the proper count is 25 pages out of a total of 191 pages because the court below mistakenly included in its count schedules, promotional materials, and duplicated pages, using a Bates-stamping proxy instead of investigating each page.

While plaintiffs are correct that the district court over-counted the denominator (the total number of pages), it is plain that the district court also substantially over-counted the numerator (the number of pages copied) by attributing as entire pages quotes as short as a single sentence. Taking these adjustments into account, the quantity of the copyrightable work copied does not weigh in favor of plaintiffs.

Second, plaintiffs emphasize that much of defendant Martin's article is simply quotation from plaintiffs' work. They urge us to consider the ratio of copied material included

in Martin's article to original material in the article. However, we decline to do so; the statutory enumeration of the third factor plainly requires only an analysis "in relation to the copyrighted work," not the infringing work. 17 U.S.C. § 107(3).

Third, plaintiffs offer yet another argument in support of their analysis of the quantity inquiry within the third factor. They seek to narrow the denominator, the total page count of plaintiffs' work, by conceptualizing the single course manual as separate "modules," each of which they urge is a separate denominator. NXIVM claims support for this approach citing the United States Copyright Office's willingness to register copyrights to plaintiffs at the "module" level. Applying this analysis, plaintiffs allege that defendants copied some entire works. Plaintiffs analogize their theory to a defendant who copies individual articles from a magazine containing separately copyrighted articles. *See Am. Geophysical Union*, 60 F.3d at 925. We cannot accept this analogy.

If plaintiffs' argument were accepted by courts—and, not surprisingly, plaintiffs cite no authority to support it—the third factor could depend ultimately on a plaintiff's cleverness in obtaining copyright protection for the smallest possible unit of what would otherwise be a series of such units intended as a unitary work. The proper analogy in this case is not to separate articles in a magazine, but instead to a book by a single author containing numerous chapters, which are not separately copyrightable. *See id.* at 925-26 (treating individual articles in a journal as the appropriate level of copyright protection when the author of each article is different). The "modules" in this case were written by the same author and they combine to produce one unitary work.

Finally, plaintiffs argue that the district court did not engage in the required qualitative analysis at all in looking to see if defendants copied the core of plaintiffs' work. We agree that from the transcript of Judge McAvoy's decision it

is unclear whether the district court performed this analysis satisfactorily; to the extent that it did not, we fill the gap here and conclude that the qualitative component of the third factor does not favor plaintiffs.

While *Harper & Row* found that copying only 300 words of an entire book could capture the "heart" of it, 471 U.S. at 564-65, 105 S.Ct. 2218, that case arose under distinguishable facts. In *Harper & Row*, the plaintiffs copyrighted an autobiography of Gerald Ford that was principally of interest for its treatment of the Watergate scandal. Thus, when the defendant magazine in that case published, with virtually no commentary, the very section of the book containing Ford's views on Watergate, the Court could easily identify it as the core of the manuscript.

Here, by contrast, there is no objective core of expression in the course materials that can be similarly identified. Even plaintiffs reveal their appreciation of this fact when they charge defendants principally with copying the heart of their "services." Such services, however, are not copyrightable expression. *See* 17 U.S.C. § 102(b) (withholding copyright protection from any "idea, procedure, process, system, method of operation, concept, principle, or discovery"). Moreover, by pressing their "module" argument, plaintiffs virtually concede that defendants could not have taken the core of the copyrighted work, because they do not see the manual as having a core, but rather as an assemblage of "modules."

Finally, we agree with the district court that, in order to do the research and analysis necessary to support their critical commentary, it was reasonably necessary for defendants to quote liberally from NXIVM's manual. Accordingly, we find that the third factor does not favor plaintiffs.

4. The "market" inquiry

The fourth statutory fair use factor requires us to evaluate the economic impact of the allegedly infringing use upon the copyright owner. The focus here is on whether defendants are offering a market substitute for the original. In considering the fourth factor, our concern is not whether the secondary use suppresses or even destroys the market for the original work or its potential derivatives, but whether the secondary use usurps the market of the original work. *Campbell*, 510 U.S. at 593, 114 S.Ct. 1164. As we stated in *Wright*, the relevant market effect with which we are concerned is the market for plaintiffs' "expression," and thus it is the effect of defendants' use of that expression on plaintiffs' market that matters, not the effect of defendants' work as a whole. *Wright*, 953 F.2d at 739. That the fair use, being transformative, might well harm, or even destroy, the market for the original is of no concern to us so long as the harm stems from the force of the criticism offered. *See Campbell*, 510 U.S. at 591-92, 114 S.Ct. 1164 ("[A] lethal parody, like a scathing theater review, kills demand for the original, [but] does not produce a harm cognizable under the Copyright Act.").

This factor weighs heavily in defendants' favor. It is plain that, as a general matter, criticisms of a seminar or organization cannot substitute for the seminar or organization itself or hijack its market. To be sure, some may read defendants' materials and decide not to attend plaintiffs' seminars. Indeed, the record reflects that soon after the dissemination of defendants' material, actress Goldie Hawn cancelled a visit with NXIVM's leader, Keith Raniere. But that sort of harm, as the district court properly recognized, is not cognizable under the Copyright Act. If criticisms on defendants' websites kill the demand for plaintiffs' service, that is the price that, under the First Amendment, must be paid in the open marketplace for ideas. *See, e.g., New Era*,

904 F.2d at 160 (citing the "fundamentally different functions" of a critique and a copyrighted original by virtue of their "opposing viewpoints")(citing *Maxtone-Graham*, 803 F.2d at 1264); *Campbell*, 510 U.S. at 591-92, 114 S.Ct. 1164.

5. Summary

Recognizing that "[a]ll [factors] are to be explored, and the results weighed together, in light of the purposes of copyright," *Campbell*, 510 U.S. at 578, 114 S.Ct. 1164, and that no one factor should dominate the analysis, the district court properly denied the preliminary injunction. We agree with the district court that defendants' writings "are undoubtedly transformative secondary uses intended as a form of criticism. All of the alleged harm arises from the biting criticism of this fair use, not from a usurpation of the market by . . . defendants." Accordingly, we affirm the denial of the preliminary injunction on the copyright infringement claim because plaintiffs are not likely to succeed on the merits. Even a finding of bad faith by defendants would not automatically preclude finding that their use was fair use.

C. The Trademark Disparagement Claim

We have carefully considered plaintiffs' arguments that they are entitled to a preliminary injunction on their trademark disparagement claim and find them to be without merit. "[T]he touchstone of whether a defendant's actions may be considered 'commercial advertising or promotion' under the Lanham Act is that the contested representations are part of an organized campaign to penetrate the relevant market." *Fashion Boutique of Short Hills, Inc. v. Fendi USA, Inc.*, 314 F.3d 48, 57 (2d Cir.2002). As we have already observed in connection with the copyright claim, defendants are not trying to get into the relevant market that is NXIVM's central business concern. Accordingly, we affirm the district court's rejection of the plaintiffs'

application for a preliminary injunction on their trademark disparagement claim.

## III. CONCLUSION

For the foregoing reasons, the district court's denial of a preliminary injunction is affirmed.

JACOBS, *Circuit Judge*, concurring:

I concur in the majority opinion and subscribe in nearly all respects to its analysis, with the following further observations.

The majority opinion assumes that Dr. Ross and his co-defendants may have acquired the NXIVM training manual in bad faith, and observes that the district court did not explore this question. Even assuming such bad faith, the majority opinion nonetheless concludes that the defendants' quotation from the NXIVM original was a fair use protected by § 107. This is because Ross used the passages from NXIVM's manuals to criticize the original, *i.e.*, with a literary intention and effect that differed sufficiently from that of the original to be transformative. Accordingly, Dr. Ross' publication of the quoted material did not enter the marketplace as a potential substitute for NXIVM's original. In the majority's words, "[a]ll of the alleged harm arises from the biting criticism of [the defendant's] fair use, not from usurpation of the market" that properly belongs to the plaintiff. Maj. Op. at 482.

With all of this I completely agree. The fact that the defendants might have acted in bad faith in acquiring the plaintiff's material did not bar a finding of fair use. I would go somewhat further. The majority assumed, based on the Supreme Court's having said so in *Harper & Row Publishers, Inc. v. Nation Enters.*, 471 U.S. 539, 562-63, 105 S.Ct. 2218, 85 L.Ed.2d 588 (1985), that bad faith on the part of secondary users has a proper place in the fair use analysis. The Court's observation in *Harper & Row* was, however, a make-weight wholly unnecessary to the outcome; rejection of the fair use defense was compelled by the essential statutory considerations: the defendant took the "heart" of the plaintiff's book (the part the public was most interested in reading), and in so doing, usurped a significant part of its market.

The Supreme Court's most recent consideration of fair use in *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 585 n. 18, 114 S.Ct. 1164, 127 L.Ed.2d 500 (1994), treats as an open question whether the secondary user's good or bad faith is pertinent to the fair use inquiry (contrary to its observation in *Harper & Row* ). The present case affords an occasion to assess whether bad faith on the part of a secondary user plays a productive role in the fair use inquiry. For the reasons that follow, I think that the secondary user's good or bad faith in gaining access to the original copyrighted material ought to have no bearing on the availability of a fair use defense. Fair use defines the outer boundary of copyright protection, and that perimeter should be drawn by reference to the central objectives of copyright. Copyright itself would be distorted if its contours were made to depend on the morality and good behavior of secondary users.

I

Twenty years ago in *Harper & Row*, the Supreme Court held that THE NATION'S scoop of a TIME magazine article previewing the memoirs of President Ford was an infringement. *Harper & Row*, 471 U.S. at 569, 105 S.Ct. 2218. Although THE NATION contended that the newsworthiness of its piece compelled a finding of fair use, the article failed every prong of the fair use statute, 17 U.S.C. § 107: its conceded purpose was to scoop the authorized publication by TIME magazine and thus "supplant[ ] the copyright holder's commercially valuable right of first publication," *id.* at 562, 105 S.Ct. 2218; it appropriated the "heart" of the memoir, *id.* at 564-66, 105 S.Ct. 2218; and it "directly competed for a share of the market for prepublication excerpts," *id.* at 568, 105 S.Ct. 2218. In short, *Harper & Row* was not a close case. Nevertheless, in its review of the "purpose and character" of THE NATION'S infringement, the Court made the additional observation that "[f]air use presupposes good faith and fair dealing" and noted

the district court's finding that "The Nation knowingly exploited a purloined manuscript" to get its scoop. *Id.* at 562-63, 105 S.Ct. 2218.

However, when the Supreme Court next considered fair use, in a challenge to 2 Live Crew's pop parody of a Roy Orbison song, the pertinence of bad faith was treated as an open question, not as a point settled by *Harper & Row*:

> [R]egardless of the weight one might place on the alleged infringer's state of mind, *compare Harper & Row*, 471 U.S. at 562[ ], 105 S.Ct. 2218 (fair use presupposes good faith and fair dealing) (quotation marks omitted), *with Folsom v. Marsh*, 9 F.Cas. 342, 349 (No. 4,901) (C.C.D.Mass.1841) (good faith does not bar a finding of infringement); [Pierre N.] Leval, [*Toward a Fair Use Standard*, 103 Harv. L.Rev. at] 1126-27 (good faith irrelevant to fair use analysis), we reject [the] argument that 2 Live Crew's request for permission to use the original should be weighed against a finding of fair use. *Even if good faith were central to fair use*, 2 Live Crew's actions do not necessarily suggest that they believed their version was not fair use . . . . If the use is otherwise fair, then no permission need be sought or granted.

*Campbell*, 510 U.S. at 585 n. 18, 114 S.Ct. 1164 (emphasis added). In opposition to *Harper & Row*'s assumption that "fair use presupposes good faith and fair dealing," the *Campbell* footnote highlighted the seemingly contrary inference of Justice Story's classic statement of the fair use principles in *Folsom*, as well as an often-cited study that questions whether good faith should be weighed in the balancing of "the social benefit of a transformative secondary use against injury to the incentives of authorship." Pierre N. Leval, *Toward a Fair Use Standard*, 103 Harv. L.Rev. 1105, 1126-27 (1990) ("Leval I"). *Campbell*'s contrary-to-fact phrasing—"[e]ven if good faith *were* central to fair use"—

rather suggests that it should not.

So, even if *Harper & Row* did state in passing that fair use presupposes good faith, *Campbell* reopened the question. *See, e.g., Religious Tech. Ctr. v. Netcom On-Line Communication Servs., Inc.*, 923 F.Supp. 1231, 1244 n. 14 (N.D.Cal.1995) ("*Campbell* . . . hardly endorses the good faith requirement."). *Campbell*'s footnoted discussion questioning the pertinence of good faith reinforces the entire thrust of the decision, which requires that fair use be assessed primarily in light of whether the secondary work quotes the original with a transformative purpose and whether it usurps a market that properly belongs to the original author—issues as to which the defendant's good faith in accessing the plaintiff's original work does not matter.

II

*Campbell* reinvigorated the doctrine, paramount since at least Justice Story's opinion in *Folsom v. Marsh*, 9 F.Cas. 342 (C.C.D.Mass.1841) (No. 4,901), that the fair use defense exists to encourage the creation of original works that do not "supersede the objects"—and thus the market value—of the original. 510 U.S. at 576, 114 S.Ct. 1164 (quoting *Folsom*, 9 F.Cas. at 348); *see also* Pierre N. Leval, *Nimmer Lecture: Fair Use Rescued*, 44 U.C.L.A. L.Rev. 1449, 1465 (1997) ("Leval II") ("[*Campbell*] revives the transformative-superseding dichotomy as the dominant consideration.").

Fair use is not a doctrine that exists by sufferance, or that is earned by good works and clean morals; it is a right—codified in § 107 and recognized since shortly after the Statute of Anne—that is "necessary to fulfill copyright's very purpose, '[t]o promote the Progress of science and the useful arts . . . .'" *Campbell*, 510 U.S. at 575, 114 S.Ct. 1164 (quoting U.S. Const., art. I, § 8, cl. 8). The fair use doctrine "*requires* courts to avoid rigid application of the copyright statute" when it "would stifle the very creativity which that

law was designed to foster." *Id.* at 577, 114 S.Ct. 1164 (emphasis added) (citation, internal quotation marks, and alteration omitted); *see also*, Leval II, 44 U.C.L.A. L.Rev. at 1465. The main purpose of the first-factor inquiry under § 107 is to see whether the new work merely supersedes the original or "instead . . . is 'transformative.'" *Campbell*, 510 U.S. at 578-79, 114 S.Ct. 1164 (quoting Leval I, 103 Harv. L. Rev at 1111). Two closely-related inquiries are crucial: Does the secondary work quote or copy the first with the same literary intention as the original or with a new, transformative purpose? Does the secondary work usurp some of the market for the first by serving as an alternate means of acquiring the quoted material? As *Campbell* pointed out, these inquiries, specified in the first and fourth listed factors of § 107, are correlated: the greater the transformative purpose of the secondary use, the less potential purchasers will see it as an alternative means of acquiring the original. *See id.* at 591, 114 S.Ct. 1164. Similarly, the more the secondary work quotes the original to communicate an identical message or purpose, the more likely it is that potential purchasers will see the secondary work as an alternate means of acquiring the first—in which case, the secondary work will likely usurp the original's rightful market. The bad faith of the secondary user in gaining access to the original author's material has no rational bearing on those crucial interrelated inquiries. *See* Leval I, 103 Harv. L.Rev. at 1126. A person who acquires the original work by crooked or unsavory means may expose himself to all sorts of civil claims and criminal charges; but the question of fair use itself should be decided on the basis of the transformative character and commercial effects of the secondary use. If the use satisfies the criteria of § 107, it is fair because it advances the utilitarian goals of copyright.

It might seem that it can never hurt to put bad faith at a disadvantage. But copyright is not about virtue; it is about the encouragement of creative output, including the output of

transformative quotation. Its goals are not advanced if bad faith can defeat a fair use defense. The limited monopoly bestowed by the copyright statute "is intended to motivate the creative activity of authors and inventors, by the provision of a special reward, and to allow the public access to the products of their genius after the limited period of exclusive control has expired." *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 429, 104 S.Ct. 774, 78 L.Ed.2d 574 (1984). Though the statute allows a copyright holder to recover damages suffered at the hands of an infringer, *see, e.g.*, 17 U.S.C. § 504 (1996), the reward to be gained (or the loss suffered) is a "secondary consideration" in the copyright scheme; its "'primary object . . . lies in the general benefits derived by the public from the labors of authors.'" *See United States v. Paramount Pictures, Inc.*, 334 U.S. 131, 158, 68 S.Ct. 915, 92 L.Ed. 1260 (1948) (quoting *Fox Film Corp. v. Doyal*, 286 U.S. 123, 127, 52 S.Ct. 546, 76 L.Ed. 1010 (1932)).

In *Campbell*, the Court affirmed that the fair use defense exists to further these same goals; it is not, as its label may connote, a privilege conferred on the well-intentioned. Fair play is no defense to infringement, *see, e.g., Folsom*, 9 F.Cas. at 349 (finding infringement despite having "no doubt [ ] that [defendant's copying was] deemed [by him] a perfectly lawful and justifiable use of the plaintiff's work"), and bad faith should be no obstacle to fair use. Thus a hotelier who stocks each room with photocopies of a newly copyrighted translation of the Bible is not saved from infringement by his piety; similarly, a movie reviewer who critiques—and reveals—a surprise ending is not deprived of the fair use defense by his malice or spite. Nor should a book critic be denied the fair use protection because she gained access to a prepublication manuscript by deceit. Fair use is not a permitted infringement; it lies wholly outside the domain protected by the author's copyright.

Bad faith is a slippery concept in the copyright context. It (i) is difficult to define, (ii) may be impossible to detect, and (iii) given weight, may lead to the suppression of transformative works that are valuable to the expansion of public knowledge. In deciding whether to publish a work derived from copyrighted source material, a publisher ought to be able to make a judgment based solely on a comparison of the two works in light of market conditions, as indicated by the factors expressly set out in § 107. The goals of copyright are disserved if publishers (and editors) risk liability on the basis of the (often unknown or unsuspected) tactics and morals of authors who produce transformative works. Incremental risks drive up the cost of publication, thus the prudent publisher may elect to forgo a new work altogether if the good faith of the creator cannot be assured. And when bad faith *is* apparent or discovered, an otherwise transformative work will not be published at all—a result in tension (at least) with the public good that copyright exists to promote. *See Sony*, 464 U.S. at 429-34, 104 S.Ct. 774. "The monopoly privileges that Congress may authorize [pursuant to Article I, section 8] are neither unlimited nor primarily designed to provide a special private benefit . . . [and anyone] who makes a fair use of the work is *not* an infringer of the copyright with respect to such use." *Id.* at 429, 433, 104 S.Ct. 774 (emphasis added).

III

Not unreasonably, the majority opinion considers us bound by *Harper & Row*. That case undoubtedly said that "fair use presupposes good faith and fair dealing," an observation that the Supreme Court has never expressly disavowed. Nonetheless, the *Campbell* footnote invites and provokes discussion of the issue as an open question where it may arise.

This case illustrates why bad faith on the part of the secondary user should not be factored into the fair use

analysis. Dr. Ross and his co-defendants quoted from NXIVM's manual to show that it is the pretentious nonsense of a cult. Potential purchasers of NXIVM's services will not buy the secondary work as an alternative means of acquiring the material quoted from the original; the secondary articles therefore do not usurp or supersede a market that properly belongs to NXIVM. Certainly, no critic should need an author's permission to make such criticism, regardless of how he came by the original; nor should publication be inhibited by a publisher's anxiety or uncertainty about an author's ethics if his secondary work is transformative. The majority opinion thus properly affirms the district court's finding of fair use, notwithstanding the possibility that the defendant might have obtained the plaintiff's materials by an act of deception or otherwise in bad faith.

**APPENDIX B**

UNITED STATES DISTRICT COURT
N.D. NEW YORK

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No. 03-CV-976, 03-CV-1051

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NXIVM CORPORATION, f/k/a Executive Success Programs, Inc.; and First Principles, Inc.
*Plaintiffs*,

v.

THE ROSS INSTITUTE; RICK ROSS a/k/a "Ricky Ross"; John Hochman; and Stephanie Franco,
*Defendants*

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NXIVM CORPORATION, f/k/a Executive Success Programs, Inc.; and First Principles, Inc.
*Plaintiffs*,

v.

THE ROSS INSTITUTE; Rick Ross a/k/a "Ricky Ross"; Paul R. Martin, Ph.D.; Wellspring Retreat, Inc.; and Stephanie Franco,
*Defendants*

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Sept. 9, 2003.

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ORDER

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MCAVOY, J.

For the reasons set forth from the bench on September 8, 2003, plaintiffs' motions for preliminary injunctions in the

above-captioned cases are granted in part and denied in part. It is hereby

ORDERED that cases 03-CV-976 and 03-CV-1051 are consolidated pursuant to Federal Rule of Civil Procedure 42(a), with 03-CV-976 serving as the lead case; and it is further

ORDERED, ADJUDGED AND DECREED that pending the final disposition of the actions against her, or until further order of this Court, defendant Stephanie Franco is enjoined from transmitting Plaintiffs' course materials to anyone other than her attorneys and persons retained by them in connection with these suits; and it is further

ORDERED that the Clerk of the Court, or his designee, is directed to detach the following two exhibits from the affidavits to which they are attached and to file the exhibits separately under seal: Exhibit A to Stephanie Franco's August 21, 2003 Supplemental Affidavit filed in 03-CV-976 (dkt.# 29); and Exhibit C to Stephanie Franco's September 2, 2003 Affidavit filed in 03-CV-1051 (dkt # 14). The sealing order does not pertain to the affidavits themselves, or the other exhibits attached thereto; and it is further

ORDERED, that plaintiffs' motions are, in all other respects, denied.

IT IS SO ORDERED

**APPENDIX C**

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF NEW YORK

[filed Sep 18, 2003]

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No. 03-CV-976

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NXIVM CORPORATION, et al.,

*Plaintiffs*,

-versus-

THE ROSS INSTITUTE, et al.,

*Defendants*.

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TRANSCRIPT OF PROCEEDINGS held in and for the United States District Court, Northern District of New York, at the James T. Foley United States Courthouse, 445 Broadway, Albany, New York 12207, on MONDAY, SEPTEMBER 8, 2003, before the HON. THOMAS J. McAVOY, United States District Court Judge.

* * * *

[4] THE COURT: I am just going to begin by addressing something that wasn't addressed by the parties, something about my gratuitous comment before you began argument.

As is evident, cases 03-CV-976 and 03-CV-1051 involve common questions of fact. Separate trials would be wasteful of the scarce judicial resources in this district. See Internet Law Library Inc. versus Carr, 2002 Westlaw 550966 *2. In the exercise of discretion, the Court consolidates the two actions pursuant to Rule 42(a). See Curtis versus Citibank NA, 226 F.3d 133, at 138. The first filed case, 03-CV-976, will be the lead case.

The Court has already set forth the preliminary injunction standard in its August 21st decision in the lead case. The Court adds, however, that while a factual hearing is generally required on an application for an injunction, no hearing is required where no material issues are in dispute. Maryland Casualty Company versus Realty Advisory Board on Labor Relations, 107 F.3d 979, at 984.

Addressing the copyright claim first, plaintiffs are correct that a demonstration of likelihood of success on the merits equates with a presumption of [5] irreparable harm. See Random House Inc. versus Rosetta Books LLC, 283 F.3d 490, at 491. However, plaintiffs have not made such a demonstration.

There is no dispute that plaintiffs offer personal success programs, but none of the defendants offer anything remotely similar. Further, there's no dispute that the allegedly offending works of Dr. Martin criticize plaintiffs' courses, but do not encourage readers to take any other type of self-improvement course.

Section 107 of Title 17, United States Code provides that the, quote, fair use of a copyrighted work, including such use by reproduction and copies for purposes such as criticism, comment, news reporting, teaching, scholarship or research is not an infringement of copyright, close quote. The statute sets forth four factors to be examined, quote, in determining whether the use made of a work in any particular case is a fair use, close quote. The statute further provides that, quote, the fact that a work is unpublished shall not itself bar a finding of fair use if such finding is made upon consideration of all the above factors, close quote.

While the defendants have the burden of proving that their potentially infringing use was fair, see Infinity Broadcast Corporation versus Kirkwood, 150 F.3d 104, at 107, they need not establish that all of the factors favor [6] them.

Wright versus Warner Books Incorporated, 953 F.2d 731, at 740.

Here, given the fact that Martin's works clearly constitute, quote, criticism, scholarship or research, close quote, about plaintiffs' courses and not a primer on executive success techniques, the first factor is in the defendants' favor. See New Era Publications International ApS versus Carol Publishing Group, 904 F.2d 152. His two works are clearly transformative in nature. Campbell versus Acuff-Rose Music, Incorporated, 510 U.S. 569, at 579. The fact that some defendants might conceivably profit from Dr. Martin's criticism through the offering of the deprogramming services doesn't change the impact of this factor. See Castle Rock Entertainment versus Carol Publishing Group, 150 F.3d 132, 141, 142.

When analyzing the second factor, courts look to whether original work previously had been published, whether it is fictional, and whether it is creative in nature. As indicated, the fact that the original work was not published requires the Court to examine all the factors. Creative works are entitled to greater copyright protection than factual works. Video-Cinema Films Incorporated versus Cable News Network Inc., 2001 Westlaw 1518264 at *7. This factor favors the plaintiffs, but is not dispositive. On Davis versus The Gap Incorporated, 246 F.3d 152, at 175.

[7] The third factor has both a quantitative and a qualitative aspect to it. Wright, at 738. Thus, this Court must consider whether the quotes in Martin's work formed a significant percentage of the copyrighted works and whether the quotes are essentially the heart of the copyrighted works. Wright, at 738. Courts have also considered, quote, whether the quantity of the material used was reasonable in relation to the purpose of the copying, close quote. American Geophysical Union versus Texaco Incorporated, 60 F.3d 913, at 926, and citing Campbell, 510 U.S. at 586.

While Martin's works do quote expansively from plaintiffs' materials, the quotes appear reasonably necessary to convey his point. Further, plaintiffs have asserted that it took 30 years to develop the rational inquiry technology and that the science of this technology is realized by the meticulous fashion that words, the order of words, questions and order of questions are used in the course material. The defendant Franco has submitted an affidavit which attaches over 500 pages of course materials, much of which is in outline form to be covered in consecutive ten-hour day seminars in which students interact with ESP coaches. How the coaches respond to student's statements and answers does not appear in the course materials. Because a copyright protects only the form of expression and not the ideas expressed, Attia versus Society of New York Hospital, 201 [8] F.3d 50, at page 54, cert. denied, 531 U.S. 843; see 17 U.S. Code Annotated, Section 102(b), it hardly appears that expression of plaintiffs' theory could be captured in the registered works or that Martin's two writings which, taken together, consists of 17 pages, could capture the heart of it. This fact is, at best, neutral.

Looking at the fourth factor, the Supreme Court in Campbell explained that if the secondary work harms the market for the original through criticism or parody, rather than by offering a market substitute for the original, it does not produce a harm cognizable under the Copyright Act. That's in quotes, it does not produce a harm cognizable under the Copyright Act, close quote. Campbell, at 592. Quote, the role of the courts is to distinguish between biting criticism that merely suppresses demand and copyright infringement which usurps the market for the original, close quote. Campbell, at 592.

Matin's writings are undoubtedly transformative secondary uses intended as a form of criticism. All of the alleged harm arises from the biting criticism of this fair use, not from a

usurpation of the market by any of the defendants. See On Davis, at 175.

In On Davis, the Second Circuit wrote:

When secondary uses harms the market for or value of the original, courts must examine the source of the [9] harm. If the harm resulted from a transformative secondary use that lowered the public's estimation of the original, paren, such as a devastating review of a book that quotes liberally from the original to show how silly and poorly written it is, close paren, this transformative use will be found to be a fair use, notwithstanding the harm.

On Davis, at 175.

Consequently, not only is the fourth factor in defendants' favor, it raises a question whether there is even an actionable copyright claim here.

Plaintiffs have failed to demonstrate a likelihood of success on the merits of the copyright claim and consequently failed to demonstrate irreparable harm caused by the violation. They've also failed to establish that there are sufficiently serious questions going to the merits to make them a fair ground for litigation. Therefore, the preliminary injunction based on the alleged copyright violations is denied.

Moving on, in order to establish a viable claim under section 43(a) of the Lanham Act, plaintiffs must show that the defendants (1) made false or misleading representations; (2) for goods; (3), in interstate commerce; (4) in commercial advertising or promotion; (5) about a material facet of plaintiffs' product, (6) that caused damage to plaintiffs. Conmed Corporation versus Erbe Electromedizin [10] GmbH, 129 F.2d — 129 F.Supp.2d 461, at 470. Although plaintiffs point to some inaccuracies in Hochman's report, they hardly rise to the level of false or misleading representations about a material facet of plaintiffs' product.

Further, assuming that material misrepresentations were made, there's no demonstration that they occurred in commercial advertising or promotion. Commercial advertising or promotion under the Lanham Act is defined as: (1) commercial speech; (2) made by a defendant who was in commercial competition with the plaintiff; (3) for the purpose of influencing consumers to buy the defendant's good or services; and (4) disseminated sufficiently to the relevant purchasing public to constitute advertising or promotion within that industry. Gordon & Breach Science Publishers SA versus American Institute of Physics, 859 F.Supp. 1521, at 1535 and 1536.

While the Second Circuit has not expressly adopted the second element, it has adopted the first, third and fourth elements of this standard. See Fashion Boutique of Short Hills, Incorporated versus Fendi USA Incorporated, 314 F.3d 48, at page 58. Other circuit courts have adopted all four elements, including the competition requirement. See Proctor & Gamble Company versus Haugen, 222 F.3d 1262, at 1273 and 1274; that's the Tenth Circuit; Coastal Abstracts [11] Service Incorporated versus First American Title Insurance Company, 173 F.3d 725, at 735; that's the Nine Circuit; Seven-Up Company versus Coca Cola Company, 86 F.3d 1379, at 1384. The Supreme Court has stated that, quote, the Lanham Act was intended to make actionable the deceptive and misleading use of marks and to protect persons engaged in commerce against unfair competition, close quote. Two Pecos Incorporated versus Taco Cabana, 505 U.S. 763, at 767, 768.

Plaintiffs were not in competition with any of the defendants. Further, there's no possibility of consumer confusion as to the origin or sponsorship of defendants' goods or services. Virgin Enterprises Limited versus Nawab, 335 F.3d 141, at 146. Dr. Hochman's article criticized the plaintiffs' courses, so any consumer seeking services from Hochman or Ross would not be confused that ESP somehow

sponsored them. Stephanie Franco's article mentioned nothing of ESP. There is no demonstration of a likelihood of success against the defendants on the Lanham Act claims.

Further, the defendants have raised a First Amendment defense to their speech. Offending commercial speech which violates the Lanham Act does not enjoy First Amendment protection, however, if the speech does not violate the Lanham Act, it may be protected by the First Amendment. See Taubman Company versus Webfeats, 319 F.3d 770, at 774, 775. From the allegations and arguments, it's clear that the [12] essence of plaintiffs' complaint is that they're being harmed by the conclusion that they're a cult. This opinion is not a enjoinable absent extraordinary circumstances, which is not present here. See Metropolitan Opera Association versus Local 100, Hotel Employees and Restaurant Employees International Union, 239 F.3d 172, at 176. An injunction which may impose a prior restraint on speech is strongly disfavored. See Metropolitan Opera Association, at 176. Therefore, even assuming plaintiffs could establish irreparable harm and sufficiently serious questions going to the merits on this claim, the balance of hardships weigh in favor of the defendant. The preliminary injunction is denied on the Lanham Act.

Finally, plaintiffs seek an injunction based upon the alleged breach of the confidentiality clause contained in Stephanie Franco's course application. Assuming without deciding that the boiler plate wording is a binding confidentiality agreement, the asserted First Amendment defense would prevent the Court from issuing an injunction of the scope requested by the plaintiffs. The plaintiffs have not demonstrated that they've suffered or will suffer irreparable harm caused by the asserted breach. Accepting plaintiffs' vague allegations of harm as true, they indicate that their business is suffering because they've been labeled as a cult, not because clients or sponsors are [13] flocking to some other success program or because clients feel they no longer

need the ESP program and instead can get the same information from Ross' website.

While the clause in the application might prevent Miss Franco from giving someone else the course materials, it is doubtful that the clause could legally prevent Miss Franco from expressing an opinion. Therefore, even assuming that there existed some sort of conspiracy between Franco and the other defendants, which appears doubtful on this record, there's no demonstration that the breach of the confidentiality clause is causing the asserted harm. Rather, that harm, if it is occurring, appears to be caused by the various defendants' expression of opinion. The Court will not enjoin that opinion.

On the other hand, the clause does seemingly protect against course participants disclosing trade secrets which, once disclosed to a competitor, could constitute irreparable harm. See Worldwide Sport Nutritional Supplements, Inc. versus Five Star Brands LLC, 80 F.Supp.2d 25, at page 33; see Softel Inc. versus Dragon Medical and Scientific Communications Inc., 118 F.3d 955, at 968, cert. denied, 523 U.S. While there's no indication that a disclosure to a competitor has occurred, Miss Franco did seemingly agree not to transmit the course materials to anyone. In order to maintain the status quo pending this [14] litigation, she's enjoined from transmitting the materials to anyone other than her attorneys and persons retained by them in connection with these suits. And in addition, the affidavit filed with the Court containing the bulk of the course materials is hereby ordered sealed.

The other defendants who are not parties to the alleged contract was not enjoined in this manner, but they should be on notice that if they divulge plaintiffs' materials in a fashion that would constitute the elements of a common law misappropriation of trade secrets claim, the Court will entertain another application for preliminary injunction.

In conclusion, the Court finds no basis to issue a preliminary injunction other than the limited injunction preventing Miss Franco from disclosing the course materials to anyone other than her attorneys. In all other respects, plaintiffs' motions are denied.

The Court will issue its own order.

Thank you for interesting arguments on both sides.

* * * *

# APPENDIX D

## CONSTITUTIONAL AND STATUTORY PROVISIONS

### U.S. Const. art. I, § 8, cl. 8. Patents and Copyrights

The Congress shall have Power . . . To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries;

### 17 U.S.C. § 107. Limitations on exclusive rights: Fair use

Notwithstanding the provisions of sections 106 and 106A, the fair use of a copyrighted work, including such use by reproduction in copies or phonorecords or by any other means specified by that section, for purposes such as criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship, or research, is not an infringement of copyright. In determining whether the use made of a work in any particular case is a fair use the factors to be considered shall include—

(1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes;

(2) the nature of the copyrighted work;

(3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and

(4) the effect of the use upon the potential market for or value of the copyrighted work.

The fact that a work is unpublished shall not itself bar a finding of fair use if such finding is made upon consideration of all the above factors.

(Pub.L. 94-553, Title I, § 101, Oct. 19, 1976, 90 Stat. 2546; Pub.L. 101-650, Title VI, § 607, Dec. 1, 1990, 104 Stat. 5132; Pub.L. 102-492, Oct. 24, 1992, 106 Stat. 3145.)

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(2)

No. 04-233

IN THE

# Supreme Court of the United States

NXIVM CORPORATION, *et al.*,

Petitioners,

v.

ROSS INSTITUTE, *et al.*.

Respondents.

**On Petition for a Writ of Certiorari to the United States Court of Appeals for the Second Circuit**

## OPPOSITION TO PETITION FOR WRIT OF CERTIORARI

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## QUESTIONS PRESENTED

1. Can copyright law be employed to enforce a non-disclosure agreement by depriving a critic of the ability to raise the defense of fair use in a copyright infringement action when he quotes even a small portion of a cult's "training manual," which the critic obtained from a former victim of the cult, solely on the ground that the cult requires participants to promise to keep its "training program" confidential?

2. Does the fact that material is quoted for the purpose of "criticism" of its author support a finding that the first statutory fair use factor (the purpose and character of the use) favors the alleged infringer in a copyright infringement case?

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## STATEMENT

Respondent Ross Institute is a non-profit organization devoted to public education and research concerning cults, controversial groups, and other movements; respondent Rick Ross is its executive director. Ross Institute maintains a database of materials, some prepared specially for the Institute and some prepared for other purposes but collected by the Institute. The Institute provides free public access to that database through its web sites, www.rickross.com and www.cultnews.com. Among the 250 different organizations discussed on the site is petitioner NXIVM Corporation.[1] Respondents' web sites link to articles by respondents John Hochman and Paul Martin, who analyzed various materials and training programs operated by petitioners and expressed opinions about whether NXIVM's programs resemble "mind control," whether its curriculum and operations are "cult-like," whether some of its programs resemble techniques of other groups that seek to overcome independent thinking, and whether the program has negative effects. Both authors quoted from NXIVM's web site and promotional materials, as well as from NXIVM's course manual, to support their critical opinions about petitioners.

The course manual had been obtained by Stephanie Franco, who had registered for a NXIVM program. NXIVM claimed that, as a condition of participating in the "training," Franco had signed an application which, according to petitioners, included an agreement that the course manual would be kept confidential. Ross had been retained by the family of Michael Sutton, Franco's half-brother and another former NXIVM student, to conduct "interventions" to save

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[1]Petitioner First Principles, Inc., is a nominally separate entity that has licensed its intellectual property to petitioner NXIVM.

Sutton from petitioners' "training." There was substantial dispute below about when each of the respondents learned about Franco's claimed violation of an agreement with petitioners, and indeed whether the confidentiality clause was enforceable, even against Franco. The Second Circuit, however, decided the case on the assumption both that respondents' possession of the manual was contrary to the agreement, and that respondents were aware at some relevant time that a confidentiality agreement had been violated. This opposition does not require respondents to question those assumptions as they have done on the merits.

Petitioners sued Franco to bar her from further disseminating the course manual, and sued respondents on various theories, alleging copyright infringement (because the materials had been quoted), product disparagement under the Lanham Act, and interference with contractual relations (by obtaining the materials in breach of Franco's promise). Petitioners moved for a preliminary injunction against all defendants. The district court enjoined Franco from disseminating the course manual; she did not appeal, and she is not a respondent before this Court. However, the district court denied a preliminary injunction against respondents' publication of their critical reports about petitioners, finding no likelihood of success on the copyright claims because respondents' fair use defense was likely to succeed. In an oral opinion, the district court canvassed the four fair use factors, emphasizing that the reports in which copyrighted material was quoted were critical commentary about petitioners, and that the material quoted was reasonably necessary to convey respondents' point. Moreover, although the district court recognized that criticism might tend to suppress demand for petitioners' product, it decided that the writings were "transformative secondary uses" and that any harm arising from biting criticism was not the sort of market harm against which

the copyright laws were directed. The district court also found that petitioners had not established any irreparable harm, and hence denied a preliminary injunction.[2]

Petitioners appealed. In an effort to escape the stringent standard requiring an abuse of discretion, petitioners characterized as an error of law the district court's failure at least to consider, in its evaluation of the first prong of the test for fair use (the purpose and character of the use), whether respondents obtained the quoted materials through an intermediary's breach of contract, while also asserting that exploitation of a "purloined manuscript" showed a lack of good faith that ought to be sufficient to deprive respondents of the "equitable defense" of fair use. Petitioners also argued that the district court had erred as a matter of law in its evaluation of the third fair use factor (quantity of materials taken) because it compared the number of words quoted to the entire course manual instead of counting each "course module" separately, on the ground that copyright in each module had been registered separately. Finally, petitioners took issue with the district court's analysis of market harm, contending both that absence of market harm was irrelevant to fair use and that, in any event, sufficient harm had been shown.

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[2]The district court also found no violation of the Lanham Act because (1) the alleged inaccuracies in respondent Hochman's report did not "rise to the level of false or misleading representations about a material facet of plaintiffs' product," (2) even if there had been material misrepresentations, Hochman's report was not "commercial advertising or promotion," and (3) the report was protected by the First Amendment. Because certiorari is not sought on any question relating to the Second Circuit's ruling on the Lanham Act claims, they are not discussed further in this opposition.

In a unanimous opinion authored by Circuit Judge John Walker, the Second Circuit ruled that respondents had the burden of "demonstrating that their copying is protected by the fair use doctrine," 364 F.3d 471, 476, and accepted petitioners' argument that the district court had erred by failing to consider "more fully and explicitly" that defendants should have known that they were using a copy that had been acquired in an unauthorized manner. *Id.* at 477. However, after a full balancing of the statutory fair use factors, the court found in favor of respondents, and hence affirmed denial of the preliminary injunction.

With respect to the first factor, the "purpose and character" of the allegedly infringing use, the court began by recognizing that respondents were engaged in a critical analysis of the copyrighted work, and that "use of quotations from the manual to support their critical analyses of the seminars is transformative." *Id.* at 477. Indeed, all of the uses specifically identified in section 107 are transformative, and hence the court said that when those uses are at issue, factor one presumptively favors the defendant. Still, the court below found fault with the trial judge's failure to consider the impact of respondents' use of a copy that had been provided to them in breach of a confidentiality clause of a contract. The Second Circuit assumed, for purpose of its decision, that use of such an unauthorized copy amounted to bad faith on the part of respondents, and it recognized that the propriety of a defendant's conduct "is an integral part of the analysis under the first factor." *Id.* at 478. The court agreed that, in *Harper & Row Pub. v. Nation Enterprises*, 471 U.S. 539, 562-563 (1985), this Court had given weight to the fact that defendants there had "knowingly acquired a purloined manuscript for the very purpose of preempting the plaintiff's first publication rights," 364 F.3d at 478-479, but noted that this was not the end of the analysis. Rather, the Second Circuit reasoned, this

Court's analysis of the first factor also rested on The Nation's "fail[ure] to make any substantial transformative use of the copyrighted work," *id.* at 479, and indeed this Court further instructed that "no single fair use factor is dispositive." *Id.* By contrast with the facts in *Harper & Row*, the Second Circuit found that, because the course manual had been quoted only in the context of a critical analysis of the document and its role in petitioners' operations, the infringing work was substantially transformative, and hence the "breach of contract" consideration was outweighed by other considerations relevant to the first fair use factor.

The Second Circuit then proceeded to weigh the remaining fair use factors. Because petitioners' work was unpublished, the second factor (nature of the copyrighted work) favored petitioners. *Id.* at 480. By contrast, it found both that the quotations represented only a small portion of the total work, *id.* at 480-481, and that respondents had not taken the "heart" of the copyrighted work. Accordingly, the third factor (amount taken) favored respondents. *Id.* at 481. Indeed, respondents had not taken more copyrighted material than necessary, because "to support their critical commentary, it was reasonably necessary for defendants to quote liberally from NXIVM's manual." *Id.* Finally, the fourth factor (effect on petitioners' market) favored respondents because the impact about which petitioners were complaining – the possibility that NXIVM would sell fewer copies because respondents' criticisms were so devastating – was not a valid consideration. *Id.* at 482.

Judge Jacobs concurred in the Court's opinion, but wrote separately to express skepticism about whether the manner in which an author obtains material that he desires to criticize should bear at all on fair use analysis. *Id.* at 483-487.

## REASONS FOR DENYING THE WRIT

After a careful analysis of the statutory fair use factors, the court below affirmed the denial of a preliminary injunction against respondents' quotation of selected portions of NXIVM's "training manuals" in order to show the basis for respondents' criticisms because respondents were likely to succeed in a fair use defense. There is no square conflict among the circuits on either of the questions on which petitioners seek review, and there is no conflict between the decision below and any of this Court's decisions. Moreover, the holding below on the first Question Presented accepted an argument that petitioners made in the Second Circuit, and the second Question is not squarely presented, as explained further below.

### A. There is No Square Conflict on the First Question, and the Second Circuit's Analysis Is Consistent with Petitioners' Arguments Below.

Petitioners seek review of the Second Circuit's refusal to reject respondents' fair use defense solely because respondents obtained the copy of the document that they quoted from an individual who breached a confidentiality agreement that she signed when paying petitioners to "train" her. According to petitioners, it was not sufficient for the Second Circuit to give substantial consideration to this fact in analyzing the "purpose and character of the use" factor; to them, any use of an unauthorized copy is necessarily not a fair use. Petitioners wrongly assert that this Court so directed in *Harper & Row*, and that the Federal Circuit has endorsed that understanding of *Harper & Row* in *Atari Games Corp. v. Nintendo*, 975 F.2d 832 (Fed. Cir. 1992). In fact, this Court's

treatment of the "purloined copy" issue in *Harper & Row* shows that this issue was only one of several factors in the Court's own analysis of fair use. Moreover, the Second Circuit gave the issue the exact consideration that petitioners sought in their briefs below, and although the Federal Circuit's decision contains broad language that could support petitioners' argument, the *Atari* case arose in a very different context than this case, and no court (including the Federal Circuit) has applied its ruling to a case like this one where the only reason why use was unauthorized was a claimed violation of a contractual confidentiality clause. In short, petitioners' extreme approach to the question is insupportable.

1. The Court should not grant certiorari because the Second Circuit adopted the very position that petitioners put forward in their briefs below. For example, in their opening brief, petitioners argued that "the first factor . . . requires **consideration** of the misappropriation of the confidential unpublished writings," page 11 (emphasis added), that *Harper & Row* held that "a court must **consider** whether [defendant] obtained the materials through an intermediary's acts of misappropriation," page 12 (emphasis added), and that the district court's error was that it "did not give any consideration in its analysis for the first prong of the fair use test to the manner that Defendant Franco wrongfully appropriated" the manual. *Id.* Indeed, the caption of argument section I(A)(1) characterized the district court's error as "Not Considering Ross' Knowledge of the Bad Faith Act of Defendant Franco." Page 12. At the same time, petitioners cited *Atari* for the proposition that to invoke fair use, "an individual must possess an authorized copy of a literary work," without ever acknowledging that it was simultaneously urging two different standards. And in its reply brief, petitioner not only never mentioned *Atari*, but argued **only** that *"Harper & Row* Is Authoritative for Consideration of 'Bad Faith' Of the Infringer

in the First Prong of the Fair Use Test," page 4, Caption, that the first factor "necessitates weighing bad faith in the acquisition of the copyrighted work," page 5, and that the reversal was needed because "the District Court fail[ed] to account for such bad faith." Having asked the Second Circuit to **consider** the manner in which their work was obtained, petitioners cannot now seek review because the Second Circuit adopted that approach but did not end its opinion after considering that point.

2. Petitioners have also overstated the split between, on the one hand, the Second and Ninth Circuits, which require only consideration of the manner in which the copyrighted work was obtained as one aspect of the first factor, and the Federal Circuit's decision in *Atari*, on the other hand. The Federal Circuit case arose because Atari, having tried and failed to reverse-engineer one of Nintendo's computer programs through a careful examination of its object code, obtained a copy of the source code from the Copyright Office by lying about its reason for obtaining the source code. Only by using this improperly obtained source code was Atari able to complete the task of replicating the computer program through reverse engineering, for the ultimate purpose of creating a product for sale in direct competition with Nintendo. It was Atari's **own conduct** that was fraudulent and in direct violation of the Copyright Office's regulations. It was in this context that the Federal Circuit used the language on which petitioners rely – "To invoke the fair use exception, an individual must possess an authorized copy of a literary work." 975 F.2d at 843.

This holding is best understood as denying protection of the fair use defense to the very party who defrauded the Copyright Office, thereby enforcing regulations that limit the uses to which a copy obtained from that Office may be put. But the Federal Circuit has never applied this holding to any other

form of unauthorized possession, not to speak of using it to enforce, against a third party who never signed a contract with the copyright holder, a copyright holder's contractual limitations on the way in which its customers may use materials that they have purchased.

Indeed, this Court's treatment of the "purloined manuscript" in *Harper & Row* demonstrates that the improper source of a copy is only one factor to be considered in a complete analysis of the fair use factors. The Court simply stated that "also relevant to the 'character' of the use is 'the propriety of the defendant's conduct.'" 471 U.S. at 562. However, the Court continued the discussion of fair use for another seven pages. *Id.* at 562-569. Had the use of a purloined copy been sufficient, standing alone, to negate the fair use defense, the Court's mention of that fact would have been the end of the opinion.

3. Moreover, petitioners' analysis makes no sense. On petitioners' theory, a completely non-commercial and transformative use of a document originally obtained in violation of contract would necessarily constitute infringement with no possibility of raising a fair use defense; there could be no finding of fair use even if defendant quoted only fifty words out of a 500-page work, in the course of a 100-page analysis, even if defendant's work created controversy that encouraged more consumers to buy the plaintiff's work so that they could follow the debate. Indeed, a newspaper that obtained a "smoking gun" letter, showing that a corporation or a state government official had engaged in serious misconduct or committed a crime, would be forbidden from publishing or even quoting from the memorandum so long as the author of the memo had required all of its employees to sign confidentiality agreements. Even a person who came across written evidence of a crime and provided a copy of the evidence to the police could be sued for copyright infringement

and statutory damages so long as the individual was subject to a non-disclosure contract. Presumably the police could also be sued for infringement for making a copy of the evidence for the prosecutor to introduce at trial, if the evidence was originally disclosed in violation of a contract.

Yet it is often necessary to quote materials that an author is criticizing in order to make a persuasive case for criticism. Indeed, when writing about cults and other controversial organizations that have a reputation for suing for defamation or disparagement (as petitioners did under the Lanham Act), the quotation of materials that form the basis for criticism is needed in order to support the defense that the author is simply expressing an opinion based on fully disclosed facts, not to speak of as a matter of sound journalistic or scholarly practice. The "unauthorized copy" defense should not deprive such authors of the ability to protect themselves against such suits.

The purpose of copyright law is to preserve to authors the commercial benefits of their creativity, not to help parties keep their wrongdoing secret by enforcing confidentiality contracts. *Diebold, Inc. v. Online Policy Group*, 2004 WL 2203382 (N.D.Cal.), at *6, citing *Campbell v. Acuff-Rose Music*, 510 U.S. 569, 591-592 (2004). Making a copy may violate a legal obligation, but publication of a part of that copy – particularly when made by someone not under that legal obligation – may be outweighed by other considerations of social benefit. The Second Circuit applied the proper analysis, and certiorari should not be granted to consider that question further in this case.[3]

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[3]The *Diebold* case shows the sort of mischief that petitioners' theory could facilitate. Certain persons uncovered a cache of secret emails among employees of Diebold, a maker

### B. The Second Question Is Not Presented Here, Because Petitioner's Question Is Based on a Mischaracterization of the Second Circuit's Reasoning.

The second Question Presented charges the Second Circuit with deciding "that an otherwise infringing use of copyrighted materials is presumptively fair, so long as it can be labeled 'criticism.'" Petitioners argue that this aspect of the opinion is contrary to a passage in this Court's opinion in *Harper & Row*, stating that section 107's list of examples of the

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of electronic voting machinery and software. Copies of the emails, which revealed that some Diebold employees were aware of problems with Diebold's systems, were published on various web sites to foster discussion of security flaws that could allow elections to be fixed. Diebold, asserting that the emails were "purloined" and disclosed in violation of secrecy agreements, embarked on a campaign to suppress publication of the emails, asserting that they were protected by copyright and that fair use could not apply because they were stolen. Rather than filing suit, Diebold invoked its rights under the Digital Millenium Copyright Act to send "takedown" notices to the Internet Service Providers, insisting that they remove the emails from their customers' web sites or face liability for infringement. If petitioners' theory were correct, the fact that the emails were originally released in violation of an employee's non-disclosure agreement would have been fatal to any fair use defense, and Diebold would have been successful in suppressing this important public debate. In *Diebold*, however, the district court awarded attorney fees against Diebold for issuing frivolous take-down notices. *Id.* at *6-*7.

kind of uses that could be "fair" was "not intended to single out any particular use as presumptively a 'fair' use. The drafters . . . structured the provision as an affirmative defense requiring a case-by-case analysis." 471 U.S. at 561. This Court went on to decide that even though The Nation had argued that its use was "news reporting," the main news was its infringement.

The Question Presented, however, misstates what the Second Circuit decided. As the text of the Petition acknowledges, at 17, the court below simply noted that, **in deciding the first factor**, the key question is whether a use is "transformative," and it then looked to section 107's listing of possibly fair uses to decide what sorts of uses were properly characterized as transformative.[4] And, far from simply accepting respondents' **label**, the court examined the work in question and determined that it was, in fact, a critical analysis. Although the Second Circuit did use the word "presumption," the court did not in fact apply any presumption in finding that the first "fair use" factor favored respondents, but carefully considered the character of the respondents' works. Indeed, it conducted just the sort of "case-by-case analysis" that this Court demanded in *Harper & Row*. There is no conflict with any of this Court's decisions.

## CONCLUSION

The petition for a writ of certiorari should be denied.

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[4]The Fourth Circuit's decision in *Sundeman v. Seajay Society*, 142 F.3d 194, 203 (1998), condemned by petitioners on the theory that it "repeated the Second Circuit's error," Pet. at 17, similarly treats the fact that a use fits within section 107's examples as showing its transformative character, and thus as "one factor" supporting a finding of fair use.

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IN THE

# Supreme Court of the United States

NXIVM CORPORATION, *et al.*,

*Petitioners*,

*v.*

THE ROSS INSTITUTE, *et al.*,

*Respondents.*

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

## BRIEF IN OPPOSITION FOR RESPONDENT STEPHANIE FRANCO

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## INTRODUCTION

In holding that plaintiffs NXIVM Corporation and First Principles, Inc. ("Petitioners") could not establish a likelihood of success on the merits of their copyright infringement claims, the United States Court of Appeals for the Second Circuit applied the fair use doctrine in accordance with the Copyright Act and this Court's prior formulations of that defense. The Second Circuit held that good faith is one factor to consider when analyzing the nature and character of the use — the first prong of the non-exclusive fair use criteria set forth in Section 107 of the Copyright Act. It further held that good faith or lack thereof was not dispositive of fair use. These rulings comport with the holding of *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 583-84 (1994) that no single element is dispositive on a fair use analysis. The Second Circuit's ruling also follows this Court's statements in *Harper and Row Publishers, Inc. v. Nation Enterprise*, 471 U.S. 539, 562 (1985) regarding the relevance of good faith to fair use analysis.

Petitioners' assertion that review is necessary because there exists some ambiguity in this Court's statements about the role of good faith is unfounded. No such ambiguity exists. Even if such ambiguity existed, this Court's review is unnecessary. Whether good faith is one factor to consider as *Harper and Row* holds, or irrelevant, as Petitioners suggest *Campbell* implies, is not relevant to the outcome of this appeal. The Second Circuit applied *Harper and Row* — the more stringent standard — yet still concluded that defendants made a fair use of the copyrighted materials.

Petitioners try to manufacture a conflict among the circuit courts where none exists. The Second Circuit's ruling in this

case is entirely consistent with the case law from the Ninth Circuit that holds that a party's bad faith is one issue that a court must consider when evaluating the nature and character of the use. It also comports with the Federal Circuit's holding in *Atari Games Corp. v. Nintendo of Am., Inc.* 975 F.2d 832 (Fed. Cir. 1992). Relying on law from the Ninth Circuit, the Federal Circuit ruled that defendants' non-transformative bad faith use of plaintiffs' computer program was not fair use. Two years later, this Court held in *Campbell* that no single factor was dispositive. Thereafter, the Ninth Circuit announced, in reliance on *Campbell*, that bad faith was not dispositive to a fair use analysis. Thus, it does not appear that today the Federal Circuit would rule that bad faith was a per se bar to invocation of the fair use defense, particularly where, as here, a transformative use was involved. Copyright cases considering fair use are fact sensitive merely because judicial opinion differs in their description of "fair use" does not mean that these differences must be reviewed by this Court.

## STATEMENT OF THE CASE

Petitioners did not appeal to the Second Circuit from any of the District Court's rulings concerning defendant/ appellee Stephanie Franco ("Ms. Franco"), including, the District Court's denial in part of Petitioners' request for injunctive relief against Ms. Franco. Petitioners' brief, however, includes misstatements regarding Ms. Franco to which a response is required pursuant to Rule 15.2.

First, the record does not support Petitioners' contention that Ms. Franco signed two confidentiality agreements before attending NXIVM's classes. (Petition for Writ of Certiorari ("Pet.") at 4.) Ms. Franco signed an application to attend

NXIVM's classes that contained what the District Court stated was "boilerplate wording." (A-715.) The District Court referred to that application as an alleged contract (A-715) and merely assumed for the purposes of the request for injunctive relief, without deciding the issue, that the boilerplate confidentiality language was a contract. (A-715.) There is no evidence that Ms. Franco signed a second form that was identified as a confidentiality agreement. Ms. Franco certified that she did not sign such a document. (A-94, A-858.)

There is also no evidence that Ms. Franco gave *Petitioners'* purportedly confidential materials to respondent Richard Ross (together with all defendants other than Ms. Franco (the "Ross Defendants"). Contrary to Petitioners' assertion (Pet. at 4 n.2), Ms. Franco and Mr. Ross both provided affidavits that stated that Ms. Franco gave her materials to her brother — not to Mr. Ross. (A-96, A-633.)

Finally, Petitioners' statement that the District Court enjoined Ms. Franco from transmitting the materials "in reliance on the confidentiality clause" is inaccurate. The District Court did not find that Ms. Franco had violated a "boilerplate" confidentiality provision. It enjoined Ms. Franco from disseminating the materials to anyone other than her attorneys and her agents. The Court issued the injunction to preserve the status quo (A-715) and only after Ms. Franco had represented to the Court that she did not want Petitioners' materials and that she had given the ESP course materials to her attorney without retaining a copy. (A-93, A-363.)

## REASONS FOR DENYING THE PETITION

The decision below does not conflict with this Court's precedent concerning the fair use doctrine and does not reveal a split between the Second Circuit and any other circuit. *Harper and Row*, *supra*, concerned the publication by The Nation magazine of verbatim quotes from President Ford's memoirs. The magazine asserted that the fair use doctrine was a defense to the claims by Time Magazine.[1] This Court considered several factors in its review of the purpose and character of the works. The Court balanced the commercial nature of the Nation's activities against the Nation's fair use assertion. It ruled that *Nation's* intention to use the copyrighted work to "scoop" Time weighed against fair use. *Id.* at 562 ("The Nation's use had not merely the incidental effect but the intended purpose of supplanting the copyright holder's commercially valuable right of first publication.") Finally, the Court weighed the district court's finding that the Nation "knowingly exploited a purloined manuscript." *Id.* at 563. This Court's treatment of the matter demonstrates that a defendant's bad faith is only one factor that goes into an evaluation of the nature and character of the use and is not dispositive of even that factor much less the availability of the fair use defense.

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1. Section 107 of the Copyright Act identifies the following four non-exclusive factors to consider when evaluating the fair use defense: (1) the purpose and character of the use including whether such use is of a commercial nature or is for non-profit educational purposes; (2) the nature of the copyrighted work; (3) the amount and substantiality of the portion used in relation to the copyrighted work; and (4) the effect of the use upon the potential market for or value of the copyrighted work. 17 U.S.C. § 107.

The analysis of the fair use doctrine in *Campbell* confirms that no single factor is dispositive of fair use. The Court stated

> the task is not to be simplified with bright-line rules, for the statute, like the doctrine it recognizes, calls for case-by-case analysis. . . . Nor may the four statutory factors be treated in isolation, one from the other. All are to be explored, and the results weighed together in light of the purposes of the copyright.

*Campbell*, 510 U.S. at 578 (1994). The Court found that the Circuit Court had erred by giving virtually dispositive weight to the commercial nature of the song parody at issue. *Id.* at 583-84. The Court identified the commercial nature of the allegedly infringing work as only one element of the inquiry into the first factor. This Court also suggested in footnote 18 that good faith was not central to fair use. *Id.* at 585 n.18. ("Even if good faith were central to fair use . . .") That statement was consistent with the Court's application of fair use in *Harper and Row* where the Nation's good faith was only one of the matters that the Court considered when it looked at the nature and character of the use.

The Second Circuit applied the fair use test in accordance with both the holdings of *Harper and Row* and *Campbell*. As required by *Campbell*, the Court did not give dispositive weight to any single factor. (Pet. 10a-11a.) The Court considered defendants' purported bad faith the same way that this Court did in *Harper and Row* — as part of an overall evaluation of the nature and character of the allegedly infringing use. (Pet. 9a-11a.) The Second Circuit assumed the Ross defendants' bad faith and weighed that against them.

Consistent with *Campbell*, however, the Court found that the transformative nature of the use demonstrated that even considering defendants' purported bad faith, the nature and character of the use still favored defendants. The Second Circuit did note that some language in *Campbell* and some scholarly commentary suggested that bad faith should play no role in a Court's analysis, but specifically refused to adopt such a rule. (Pet. 10a n.2.) Thus, the Court applied the more stringent rule announced in *Harper and Row*, but still ruled in favor of the Ross Defendants.

Petitioners' further assertion that there exists a variety of rules in the Second, Ninth and Federal Circuits is unfounded. The approaches taken by the Second and Ninth Circuits are consistent. The Second Circuit in the instant case and in its prior rulings holds that bad faith is an integral element of the nature and character inquiry. (Pet. 11a.) *Wright v. Warner Books, Inc.*, 953 F.2d 731, 737 (2d Cir. 1991). The Ninth Circuit takes the same approach. *See Los Angeles News Service v. KCAL-TV Channel 9*, 108 F.3d 1119 (9th Cir. 1997), *cert. denied*, 522 U.S. 823 (1997). In *Los Angeles News Service*, the Ninth Circuit found defendants' purported bad faith to be relevant but not dispositive. *Los Angeles News Service*, 108 F.3d at 1122. A district court in the Ninth Circuit applied the same test in a case that bears similarity to the instant matter, *Religious Technology Center v. Netcom On-Line Communication Services, Inc.*, 923 F. Supp. 1231 (N.D. Cal. 1995). There, an organization affiliated with the Church of Scientology brought a copyright infringement suit based on the posting of allegedly confidential materials on the Internet. The District Court held that the allegation that the copyrighted materials had been obtained in an

unauthorized manner was only one factor that weighed against fair use, but was not dispositive. *Id.* at 1244-45.[2]

On careful analysis, the Second Circuit and Federal Circuit substantially agree with respect to the fair use doctrine. The Federal Circuit applies the law of the regional circuit from which the case arose in deciding substantive copyright issues, including fair use. *See* The *Chamberlain Group, Inc. v. Skylink Technologies, Inc.*, 381 F.3d 1178, 1191 (Fed. Cir. 2004); *Atari Games Corp.*, 975 F.2d at 837. ("To resolve issue of copyright law, this Court applies the law as interpreted by the regional circuits in this case, the United States Court of Appeals for the Ninth Circuit.") In *Atari Games*, the Federal Circuit's ruling that defendants' bad faith barred an assertion of fair use relied on Ninth Circuit law as it existed in 1992. The Ninth Circuit's subsequent holding in *Los Angeles News Service* was that bad faith was only one sub-factor in the fair use analysis. Here, *Atari Games* is no longer a correct interpretation of Ninth Circuit law. The Federal Circuit would not reach the same conclusion regarding the role of bad faith in the fair use analysis, if faced again with an appeal from a court in the Ninth Circuit. Significantly, this Court's subsequent holding in *Campbell* that no single factor is determinative of a bad faith demonstrates that *Atari Games* is no longer binding.

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2. The Court in *Religious Technology Limited* ultimately found the use of plaintiffs' material had not been fair based in large part on the non-transformative nature of the use. Here, the Second Circuit properly found the Ross defendants' use transformative.

## CONCLUSION

For the foregoing reasons, the petition for a writ of certiorari should be denied.

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IN THE

# Supreme Court of the United States

NXIVM CORPORATION *et al.*,

*Petitioners,*

v.

ROSS INSTITUTE *et al.*,

*Respondents.*

**On Petition for a Writ of Certiorari to the United States Court of Appeals for the Second Circuit**

## REPLY BRIEF IN SUPPORT OF CERTIORARI

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## REPLY BRIEF IN SUPPORT OF CERTIORARI

Respondents' Opposition[1] is far more striking for what it concedes than for what it contests. Respondents concede that there is a circuit split over the meaning of *Harper & Row Publishers, Inc.* v. *Nation Enterprises*, 471 U.S. 539 (1985). They do not deny that there is inconsistency between *Harper & Row* and *Campbell* v. *Acuff-Rose Music, Inc.*, 510 U.S. 569 (1994), which only this Court can resolve. They affirmatively argue that *Harper & Row* is internally inconsistent. And, they acknowledge that the Second Circuit employed a presumption—just as petitioners argued—that the nature of respondents' publication satisfied the first prong of the fair use test. In short, far from undermining the case for certiorari, respondents' brief reveals plainly that the questions presented by petitioners warrant review by this Court.

### I. THIS COURT SHOULD GRANT CERTIORARI TO RESOLVE A DECISIONAL CONFLICT OVER WHETHER UNAUTHORIZED COPYING PRECLUDES THE FAIR USE DEFENSE.

1. Respondents altogether fail to undermine the petition's showing that the decision below stands in square and acknowledged conflict with the decision of the Federal Circuit in *Atari Games Corp.* v. *Nintendo of America Inc.*, 975 F.2d 832 (Fed. Cir. 1992), and is incompatible with multiple decisions of the Ninth Circuit. Pet. 12-13. On the contrary, they concede the conflict.

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[1] References and citations to the "Opposition," unless otherwise noted, concern the brief filed on behalf of "respondents" collectively, not the separate opposition filed by Stephanie Franco. The Franco brief substantially duplicates the other brief, with the exception of factual assertions that are not material here, Franco Opp. 2-3, and that are gainsaid by the record in any event, as the authorities cited in the Petition demonstrate, *see* Pet. 4 & n.2.

As set forth in the petition, this Court held in *Harper & Row* that only a defendant who has acted in good faith can avail itself of the fair use defense to copyright infringement. 471 U.S. at 562 ("'[f]air use presupposes "good faith" and "fair dealing"'"). This principle, which is supported by a long common-law tradition, Pet. 10, was applied by the Federal Circuit in *Atari*. There, the Federal Circuit stated three separate times that the fair use defense is unavailable to a defendant who possesses an unauthorized copy of a copyrighted work. 975 F.2d at 843 ("To invoke the fair use exception, an individual must possess an authorized copy ...."); *id.* ("Because Atari was not in authorized possession..., any copying or derivative copying ... does not qualify as a fair use."); *id.* at 842 ("The Copyright Act permits an individual in rightful possession of a copy of a work to undertake necessary efforts to understand the work's ideas, processes, and methods of operation.").

In the decision below, the Second Circuit declined to apply a literal reading of *Harper & Row*'s holding, and then acknowledged that its decision conflicted squarely with *Atari*. Although it treated defendants' acquisition of the relevant copyrighted materials as unauthorized, Pet. App. 6a, 9a, it nonetheless refused to treat this fact as dispositive, *id.* at 10a ("'nothing in *Harper & Row* indicates that the defendants' bad faith is itself conclusive of the fair use question'" (alterations omitted)). Having reached this conclusion, the court stated forthrightly that the rule of *Atari* would have mandated the opposite result: "[T]he rule enunciated in *Atari* would foreclose the fair use defense altogether based upon defendants' bad faith." *Id.* at 9a. The decisional conflict is absolutely plain. (And, as the petition demonstrates, this conflict is exacerbated by a third approach adopted by the Ninth Circuit. Pet. 12.)[2]

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[2] There is no substance to respondent Franco's claim that the circuit split is illusory because, she argues, the Federal Circuit's decision in *Atari* was merely interpreting Ninth Circuit precedent, and has been superseded

Importantly, respondents do not dispute the existence of this conflict; instead, they weakly assert that the petition "overstate[s] the split." Opp. 8. It is unclear in what fashion the split is "overstated"; there exists an acknowledged conflict, which respondents concede, and it is that critical fact that warrants this Court's review. Sup. Ct. R. 10(a).

Respondents seemingly mean to argue that *Atari* and the decision below can be distinguished on their facts. They claim that *Atari* "is best understood"—a telling turn of phrase—as limited to only those cases in which the defendant's "*own conduct* ... was fraudulent." Opp. 8. Thus, they argue, *Atari* does not apply to a case like this one, involving what they suggest is a blameless third party. *Id.* at 8-9. This argument is wrong for at least two reasons. First, this attempt to limit *Atari* to its facts finds no support in *Atari* itself. *Atari* broadly stated that "[t]o invoke the fair use exception, an individual must possess an authorized copy." 975 F.2d at 843. Nothing in *Atari* suggests that the Federal Circuit's reasoning depended upon the factual distinction advanced by respondents. On the contrary, on each of the three occasions on which the court stated the rule it was applying, it focused on the fact that the copy was unauthorized, and nowhere limited its rule with reference to the party that acted in unauthorized fashion. *Id.* at 842, 843.[3]

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by intervening decisions. Franco Opp. 7. Although *Atari* did seek to predict the state of the law in the Ninth Circuit, 975 F.2d at 837, nothing in *Atari*'s discussion of *Harper & Row*, or of the principles relevant here, depended on Ninth Circuit authority, *id.* at 843-44. *Atari* undertook a general analysis of the law; it remains binding authority in the Federal Circuit across an array of cases; and it indeed conflicts with the decision of the Second Circuit in this case.

[3] Even were the factual distinction put forward by respondents relevant, it is far from clear that respondents in this case are in fact blameless. On the contrary, evidence indicates that in the course of his paid employ by the Sutton family, respondent Ross solicited the confidential materials (and therefore contributed to the breach of contract); passed them along to Hochman and Martin; and posted the eventual infringing materials on the

Second, and perhaps more important, the Second Circuit itself rejected the distinction suggested by respondents. That court concluded that the rule of *Atari* would have led to a different result in this case. Pet. App. 9a. Simply put, the Second Circuit perceived no relevant basis for distinguishing *Atari*. The court below "understood" *Atari* completely, Opp. 8, and simply refused to follow it. That is reason enough to grant certiorari.

2. Importantly, respondents make no effort to counter the petition's showing that review is necessary to clarify apparent ambiguity in this Court's decisions. Pet. 13-16. As the petition explains, this Court's decision in *Campbell* arguably, implicitly undercut *Harper & Row*'s statement that bad faith precludes the fair use defense. *Id.* at 14; 510 U.S. at 585 n.18. *Campbell*, however, did not *explicitly* state that it was overruling *Harper & Row*, 510 U.S. at 585 n.18, and thereby left lower courts in the position of having to attempt to follow inconsistent decisions, cf. *State Oil Co.* v. *Khan*, 522 U.S. 3, 20 (1997) (noting that the lower courts may not treat a Supreme Court decision as having been implicitly overruled). The court below recognized the difficulty in remaining faithful to both *Harper & Row* and to *Campbell*, see Pet. App. 8a, 10a n.2, as did Judge Jacobs in his separate concurring opinion, *id.* at 21a, 24a. Respondents fail altogether to address this issue. (Indeed, they all but fail to mention *Campbell*. Cf. Opp. iii.)

On the contrary, their brief confirms that this Court's review is necessary to resolve doctrinal confusion. On the one hand, respondents do not dispute, because they cannot, that *Harper & Row* held that "'[f]air use presupposes "good faith" and "fair dealing."'" 471 U.S. at 562. The meaning of this phrase is plain, as the Federal Circuit recognized. 975 F.2d at 842, 843; see also Pet. 14. Instead, respondents argue that this Court in *Harper & Row meant* something different than

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Ross Institute's web site (and therefore was complicit in the infringement). Second Cir. Joint App. 29, 42, 633-35.

what it *said*. On their view, *Harper & Row* does not *really* mean that bad faith is dispositive, because after stating this rule, the Court went on to employ an inconsistent mode of analysis—it treated bad faith as "only one of several factors in the Court's own analysis of fair use." Opp. 7; *accord id.* at 9 ("this Court's treatment of the 'purloined manuscript' in *Harper & Row* demonstrates that the improper source of a copy is *only one factor to be considered* in a complete analysis of the fair use factors" (emphasis added)). If respondents are correct, then this is all the more reason for this Court to grant review. On this view, not only is there a decisional conflict between *Campbell* and *Harper & Row* (which, of course, only this Court can resolve), but there is an additional ambiguity within *Harper & Row* itself—which only this Court can resolve, and which is leading to confusion in the lower courts.

3. Respondents' assertion that "petitioners' analysis makes no sense," Opp. 9, is purely a merits argument and is no reason to deny certiorari. As the petition demonstrates, "petitioners' analysis" is nothing more than the rule of *Harper & Row*, which is the correct rule. Pet. 8-10. Furthermore, there is no reason to believe that the rule of *Harper & Row* would lead to the parade of horribles that respondents predict, Opp. 9-10, for the simple reason that none of the hypotheticals they pose necessarily encompasses bad faith such that the fair use exception would be precluded. But in any event, "petitioners' analysis" is no different than the rule of *Harper & Row* and *Atari*, and thus respondents' effort to conflate certiorari with the merits is unavailing. Respondents may disagree with those rulings, but their holdings are clear. If those cases "make[] no sense," then only this Court can correct the claimed error. Once more, respondents themselves have made the case for certiorari.[4]

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[4] Respondents' final argument with regard to the first Question Presented—that "the Second Circuit adopted the very position that petitioners put forward in their briefs below," Opp. 7—barely requires response. For judicial estoppel to succeed (and, although respondents fail to identify

## II. THE DECISION BELOW SQUARELY CONFLICTS WITH THIS COURT'S HOLDINGS CONCERNING THE PROPER INTERPRETATION OF THE PREAMBLE TO 17 U.S.C. § 107.

Respondents likewise provide no substantial argument against granting certiorari on the second Question Presented. As the petition explains, *Harper & Row* held that the preamble to § 107 "was not intended … to single out any particular use as presumptively a 'fair' use." 471 U.S. at 561; Pet. 16 (setting forth additional authorities). Yet the court below determined that, because defendants' publication was "criticism"—which is one of the enumerated categories in the preamble to § 107—the first fair use factor was presumptively satisfied. Pet. 17 (explaining same). Accordingly, the reasoning of the court is inconsistent with decisions of this Court, and certiorari is warranted.

Respondents do not dispute that *Harper & Row*, like authorities before it, stated a clear rule against the use of presumptions in the fair use analysis. Instead, they argue that (1) the petition somehow misstates the issue; and (2) the Second Circuit did not actually apply such a presumption. Both arguments fail.

The first argument is belied by the petition itself, and fails on the merits. Respondents suggest that if the Second Circuit applied any presumption, it was that the uses listed in the preamble to § 107 presumptively satisfy the *first* fair use factor (rather than that such uses are presumptively fair *overall*). Opp. 12. But this is precisely what the petition explained, Pet. 16-17, as respondents acknowledge, Opp. 12. The deci-

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their theory by name, judicial estoppel is plainly the doctrine they invoke) the purportedly estopped argument must be "'clearly inconsistent'" with the argument made below. *New Hampshire* v. *Maine*, 532 U.S. 742, 750 (2001). But respondents concede that in the Second Circuit, petitioners made the very same argument that they advance here. Opp. 7 ("petitioners cited *Atari* for the proposition that to invoke fair use, 'an individual must possess an authorized copy of a literary work'").

sion below concluded, as the Second Circuit repeatedly has done, that when a "use" falls within one of the categories listed in the preamble to § 107, that use presumptively satisfies the first prong of the fair use test. Pet. App. 7a; Pet. 16-17 (explaining same, and citing other Second Circuit authorities that have held likewise).

As the petition shows, this was error. *Harper & Row* and earlier decisions of this Court held, and the legislative history of § 107 confirms, that presumptions are generally inappropriate in this context. Pet. 16. More specifically, *Campbell* held that presumptions regarding the first fair use category are impermissible. 510 U.S. at 584. In *Campbell*, the specific question was whether the commercial nature of a use mandated a presumption against fairness within the first factor of the fair use test. Looking to the same portion of *Harper & Row* cited in the petition, and the same legislative history cited in the petition, this Court held that such presumptions are impermissible. *Id.* ("the mere fact that a use is educational and not for profit does not insulate it from a finding of infringement, any more than the commercial character of a use bars a finding of fairness"). As the petition demonstrated, then, the decision below stands in square conflict with decisions of this Court.

Respondents' second argument, that no presumption was in fact applied below, is flatly inconsistent with the decision of the Second Circuit. They argue that although the Second Circuit *said* one thing, it *meant* something else, Pet. 12—in particular, that the Second Circuit said it was applying a presumption of fairness, but did not in fact do so. The decision below fully answers this contention. The Second Circuit said not once, but twice, that it was employing a "presumption" that the first fair use factor was satisfied. Pet. App. 7a. It not only stated that it was applying a presumption, but that it was employing a "'strong presumption.'" *Id.*

* * * *

The telling concessions in respondents' opposition confirm the need for review. Respondents do not dispute that there is a square and acknowledged circuit split among the federal circuit courts that have primary responsibility for implementing the Nation's intellectual property laws. Respondents do not even address the lower courts' perception of confusion in this Court's precedents. And their attempt to show that the decision below is consistent with this Court's precedents depends entirely on mischaracterizing the petition and the decision below. Instead of following respondents' lead and wishing the decisional problems away, the Court should grant the petition and decide the fundamental questions of copyright liability posed here.

## CONCLUSION

For the foregoing reasons and those stated in the petition, the petition for a writ of certiorari should be granted.

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